# Doing Business in Mexico: A Country Commercial Guide for U.S. Companies





2/7/2007

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# Chapter 1: Doing Business In Mexico



## Market Overview Return to top

- The North American Free Trade Agreement (NAFTA), which was enacted in 1994 and created a free trade zone for Mexico, Canada and the United States, is the most outstanding feature in the U.S.-Mexico bilateral relationship.
- Since the implementation of NAFTA, Mexican imports from the U.S. have increased exponentially, totaling over $120 billion in 2005. Through October 2006, U.S. exports to Mexico were $112.3 billion, up 13.3% over the same period in 2005. U.S.-Mexico bilateral trade has increased 232%: from $88 billion in 1993 to $292 billion in 2005, although China just surpassed Mexico as the U.S.'s second-largest trading partner.
- In 2006, the economy grew by 4.5%, the highest figure since 2000, although the Treasury predicts growth slowing in 2007 to 3.6% due to slowdowns in U.S. growth and Mexican industrial production.
- On December 1, 2006, Mexico inaugurated Felipe Calderon as President. Although President Calderon's narrow electoral margin and the unusually divisive nature of the election have given rise to certain challenges, Calderon inherited a stable, growing economy tightly linked to U.S. economic cycles. With inflation under control, foreign direct investment continuing to grow and relatively stable debt and equity markets, Mexico's macro-economic picture is a healthier one than in early years of this decade.

## Market Challenges Return to top

- Mexico's size and diversity are often under appreciated by U.S. exporters. It can be difficult to find a single distributor or agent to cover this vast market.
- The Mexican legal system differs in many significant ways from the U.S. system. U.S. firms should consult with competent legal counsel before entering into any business agreements with Mexican partners. The U.S. Commercial Service can provide a list of attorneys with experience in dealing with U.S. corporate clients through the Business Service Provider program.
- The banking system in Mexico has shown some signs of growth after years of stagnation, but interest rates remain relatively high. In particular, small and medium enterprises (SMEs) find it difficult to obtain financing at reasonable rates despite Mexican Government efforts to increase capital for the SMEs. U.S. companies need to conduct thorough due diligence before entering into business with a Mexican firm, and should be conservative in extending credit and alert to payment delays. As one element in a prudent due diligence process, the U.S. Commercial Service offices in Mexico can conduct background checks on potential Mexican partners. There is a fee for this service.

- Mexican customs regulations, product standards and labor laws may entail pitfalls for U.S. companies. U.S. Embassy commercial, economic, agricultural and labor attachés are available to counsel firms with respect to regulations that affect their particular export product or business interest.
- Have patience. Everything takes more time to accomplish in Mexico than what U.S. companies are used to or would like.

## Market Opportunities

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- With the overwhelming amount of trade between the United States and Mexico, there are abundant market opportunities for U.S. firms in Mexico.
- Mexico's geographic proximity to the United States has propelled the maquiladora industry with thousands of factories near the U.S.-Mexico border for export back into the United States. Marketing to these manufacturers could lead to substantial opportunities for U.S. firms.
- Some of the most promising sectors include: airport & ground support equipment, automotive parts & supplies, education & training services, electronic components, energy technology & services, environmental technologies & equipment, franchising, hotel & restaurant equipment, housing & construction, plastic materials/resins, security & safety equipment & services, telecommunications equipment, transportation infrastructure equipment & services and travel & tourism services.
- A complete list of the top prospects in Mexico is provided in Chapter Four. However, given the size of the Mexican market, there are numerous other promising prospects, including medical equipment, food processing equipment, architectural and engineering services and more. If an industry is not explicitly mentioned as a "best prospect," it does not necessarily mean that there are not ample opportunities in the Mexican market.

## Market Entry Strategy

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- In Mexico, business is done on the basis of relationships. U.S. exporters will need to travel to Mexico frequently to develop and strengthen relationships in order to do business successfully in Mexico.
- Mexican companies tend to be extremely price conscious and appreciate outstanding service. Time is essential to cultivate trust to enhance a professional partnership.
- Several market entry strategies have proven to be effective in Mexico. In general, Mexicans appreciate close working relationships, so working with a locally-based agent, representative or distributor is usually essential. However, market entry strategies can vary by sector and region in Mexico. U.S. Commercial Service staff is available to provide individualized counseling to determine the best market entry strategy for a given U.S. company/product.

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## Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

http://www.state.gov/r/pa/ei/bgn/35749.htm

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# Chapter 3: Selling U.S. Products and Services



## Using an Agent or Distributor

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Many U.S. firms use a distributor and/or retailer to distribute their products in Mexico. This channel can be used to distribute products in various regions or to distribute to several lines of business. For example, a distributor can be used to sell to the automobile industry, and another distributor to sell to the financial sector. This channel is also efficient when the distributor is required to have a stock of the product.

Some U.S. firms sell their products through a sales agent. Usually, a sales agent is a freelancer. However, some Mexican firms are interested in serving as sales agents for U.S. firms. This channel can be efficient for reaching the smaller cities or more remote locations of the country.

Selection of the appropriate agent or distributor requires time and effort. Though there may be many qualified candidates, U.S. firms should use high standards in selecting the agent/distributor. Since most Mexican firms are selling in a limited area, U.S. companies should consider appointing representatives in multiple cities to broaden distribution, and rarely, if ever, grant an exclusive, national agreement. It is important to develop a close working relationship with the appointed agent/distributor. Providing appropriate training, marketing support, samples, product support, and timely supply of spare parts is critical for success. There are no indemnity laws to prevent a company from canceling an agent or distributor agreement, but the cancellation clause should include specifics and be free of vague language. Sales performance clauses in agent/distributor agreements are permitted, and failure to meet established standards can be a reasonable cause for contract cancellation.

Before signing the agent/distributor agreement, all parties should fully understand the terms and conditions and the relationship to be developed. Many relationships are strained because insufficient time is invested in developing a full understanding of what is expected.

The Commercial Service and other organizations, such as the U.S. Chamber of Commerce and U.S. State government offices, maintain lists of Mexican agents/distributors, manufacturers, Mexican government offices, and private sector trade organizations. After identifying a suitable agent/distributor, the U.S. exporter is encouraged to conduct a commercial background check on the Mexican firm. The U.S. Commercial Service offers the service of providing an International Company Profile (ICP) report to provide background information on a potential business partner.

If the product is new to the market, or if the market is extremely competitive, advertising and other promotional support should be negotiated in detail with your representative. Product and industry knowledge, track record, enthusiasm and commitment should be weighed heavily. Service and price are extremely important to Mexican buyers. The U.S. exporter should also schedule annual visits of Mexican personnel to the U.S. companies for training. Another factor to consider is financing, as the commercial and industrial sectors' resources are limited due to high interest rates. Joint venture arrangements should also be investigated to strengthen market penetration. Direct marketing and telemarketing are still evolving marketing strategies, but they are gaining in popularity and scope.

## Establishing an Office Return to top

For U.S. companies interested in establishing a presence in Mexico, the General Law of Mercantile Organizations (or the Civil Code) regulates the many different forms of business entities. The type of business incorporation that a U.S. company or individual chooses is extremely important because it determines the operations they are allowed to perform in Mexico and, among other liabilities, the amount of taxes they pay.

Some of the most commonly-used types of business forms are the Sociedad Anonima (Corporation) identified with "S.A." at the end of the company name, and the Sociedad Anonima de Capital Variable (Corporation with Variable Capital) identified with "S.A. de C.V." One of the advantages of the latter is that the minimum fixed capital can be changed subsequent to the initial formation.

The Limited Liability Partnership (Sociedad de Responsabilidad Limitada) identified with "S. de R.L." is similar to a closed corporation in the United States and it also has the option of having a variable capital ("S. de R.L. de C.V."). As this is an organization formed by individuals, it can have similar characteristics to a partnership with the exception of the unlimited liability.

Civil Partnership (Sociedad Civil) is the most common organization for professional service providers. It has no minimum capital requirements and no limit in the number of partners, but it is taxable in the same way as a corporation. It is identified with "S.C."

Civil Association (Asociación Civil) is the form that charitable or nonprofit organizations adopt to operate and is identified with "A.C."

A foreign company may open a branch ("sucursal") in Mexico as an alternative to incorporating. A branch can provide rights and responsibilities similar to a corporation, including tax liability and access to local courts, but requires the approval of the National Foreign Investment Commission.

## Franchising Return to top

The franchise industry in Mexico has grown between 15 – 20 percent every year over the last decade. In 2006 franchises generated sales over USD 8.5 Billion, proving that the franchise sector is an important source of job creation, self-employment and wealth creation. Mexico is the 8th leading nation in franchise development according to the World Franchise Council. Conservative estimates indicate that this sector will grow at least 15 percent in 2007.

Franchises in Mexico are regulated by Article 142 of the Industrial Property Law and Article 65 of its Regulations. Franchise agreements must be registered before the Mexican Institute of Industrial Property in order to be effective against third parties.

On January 26, 2006, an amendment to the Mexican Franchise Regulations (Article 142) was published in the Mexican Official Gazette, stating a new definition of franchise, mandating requirements for franchise agreements, and providing new standards for pre-sale franchise disclosure.

For more information on Franchising in Mexico, please see Chapter 4 of this Country Commercial Guide: Leading Sectors for U.S. Export and Investment – Franchising.

## Direct Marketing Return to top

In the last ten years the marketing industry in Mexico has evolved into a more sophisticated, segmented, and dynamic sector. Today, the choices firms have for marketing their products range from promoting their products through one-to-one contact at point-of-sale displays or inserts distributed in monthly bills to mass exposure through advertising on billboards or other media outlets.

Simultaneously, an increase in the general adoption of more competitive and aggressive marketing strategies among local and international firms has fostered specific industry specialization. This is particularly true in the case of promotional services such as in-store promotions, free sample campaigns and other types of services, which require a one-on-one approach. Today, as well as traditional marketing firms, there are companies dedicated solely to each marketing discipline. Following is a list of the marketing services that are readily available in Mexico:

1) Publicity
2) Media Centers
3) Public Relations
4) Market Research
5) Internet
6) POS (Point of Sale)
7) Promotions
8) Direct Marketing

Generally, medium and small-sized U.S. companies that enter the Mexican market leave all of the promotional efforts to their local distributor or representative, relying entirely on their ability to sell to major players in the market. However, industry experts believe that in order to establish a long-term presence in Mexico, U.S. firms must directly invest in marketing and promotion to increase their sales.

According to industry experts, companies are utilizing more targeted strategies, as opposed to mass media channels. Since selecting the most appropriate means is very subjective, the best approach is to rely on the industry experts to make solid recommendations on the best available vehicle.

CS Mexico highly recommends U.S. companies check with local associations to verify member companies' standings before conducting any marketing campaign in Mexico. Additionally, local associations are often a great source for information and general orientation as to the most recommended strategy. The leading association in Mexico is CICOM.

CICOM
Confederacion de la Industria de la Comunicacion Mercadotecnica
Confederation of the Industry for Marketing Communication
Cerrada de Palomas 36-A
Col. Reforma Social
11650 Mexico, D.F.
Tel: (011-52-55) 2623-0561, through 64
Fax: (011-52-55) 2623-0564 (request tone)
e-mail: cte@amap.mx
www.cicom.org.mx

## Joint Ventures/Licensing Return to top

Given the flexibility of engaging in joint venture agreements, this is a common approach for U.S. firms interested in establishing a presence in Mexico. Although some Mexicans rely on verbal agreements when doing business, it is highly recommended to have a written joint venture agreement with your Mexican business partner. According to Mexican law, joint ventures are considered separate entities from their parent companies and must register separately to pay taxes.

To safeguard a license or patent against third parties, all licenses and patents in Mexico must be registered with the Mexican Institute of Intellectual Property (IMPI). Registering a license or patent entails a government review that can take up to twenty weeks. For more information on IMPI, please see the "Intellectual Property" section below.

## Selling to the Government Return to top

The Mexican government purchases large volumes of raw material, repair parts, finished goods and hired services, for the execution of important infrastructure and construction works. In 2005, government procurement amounted to $26.75 billion, of which 31% was used to purchase goods, 44% to services and 25% to construction services.

Traditionally, the entities and enterprises with the largest purchasing budgets have been:

Public entities:
- Secretariat of Communications and Transport (SCT)
- Secretariat of Public Education (SEP)
- Treasury Department (SHCP)
- Secretariat of Health (SS)

Public enterprises:
- Mexican Petroleum (PEMEX)
- Federal Electricity Commission (CFE)
- Mexican Social Security Mexican (IMSS)
- Government Workers Security and Social Services Institute (ISSSTE)

For more information on Mexico's government procurement laws and procedures, please see the following market research report "Update on Mexican Government Procurement Laws": http://www.buyusainfo.net/docs/x_2561665.pdf.

U.S. firms, their Mexican agents, distributors, and representatives interested in government procurement should become familiar with these laws and any potential revisions to the laws. U.S. firms may take advantage of electronic means to participate in the bidding process. U.S. firms that want to learn more about tenders and bids can check the following electronic web page address, which includes all information on current tenders, statistics, and complaints: http://www.compranet.gob.net.

While maintaining a representative or office in Mexico is not a prerequisite to obtaining government contracts, it can simplify obtaining the information needed to prepare bid documents and support after-sales service and parts supply.

U.S. firms are encouraged to carefully analyze with their representative the tender specifications. They may differ from entity to entity, depending on the value of operation, type of goods or services, budget limitations, etc. A bid will be disqualified if not received within the specified period of time. Bids can also be disqualified for not meeting minute technical details. Likewise, each tender includes a specific period of time for participants to ask questions. By paying attention to all details, the unnecessary disqualification of a firm may be avoided. In some tenders, only written questions are permitted. Replies are given to all purchasers of the tender documents.

If a tender specifies a certain brand or gives preference to a supplier, a complaint can be filed with the General Directorate of Complaints, before the contract is awarded. Each bid should only consider the exact specifications listed in the tender. "Solutions" and or specifications not listed will disqualify the bid.

Finally, U.S. firms should communicate regularly with their Mexican representative and fine-tune all details related to the required documents. There have been numerous cases of disqualification based upon seemingly insignificant failures on the part of bidders to comply with tender regulations and procedures to the letter of the law.

## Distribution and Sales Channels

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Mexico has an adequate transportation network that is being modernized. The main land-border crossings with the U.S. are Nuevo Laredo, Ciudad Juarez, Piedras Negras, Mexicali and Tijuana, which has the highest passenger traffic in the world. Laredo/Nuevo Laredo is by far the most popular land-border crossing for goods, with approximately 40% of all U.S.-Mexican trade clearing customs at this point. Most Mexican companies, regardless of their geographic proximity to Laredo/Nuevo Laredo, prefer having their goods shipped through this point because the customs agents and customs brokers are the most experienced.

The main maritime ports are Altamira, Tampico, Veracruz and Progreso in the Gulf of Mexico, and Ensenada, Lazaro Cardenas, Manzanillo and Puerto Madero on the Pacific Coast. All these ports have infrastructure and equipment to facilitate intermodal, door-to-door merchandise transportation.

Mexico is developing a modern highway system, primarily comprised of expensive toll roads connecting the main industrial areas located in the triangle Mexico City-Guadalajara-Monterrey. Outside this area, road transportation is fair-to-poor. Transportation-logistic services are expensive in Mexico: it is estimated that over 8 percent of product cost in Mexico is related to logistics, vis-à-vis 5 percent in more developed countries.

According to the Mexican Institute for Competitiveness, in 2006, 75 percent of Mexican products were shipped by road, 17.5 percent by railroad and 7.5 percent by maritime transportation. North-South NAFTA trade has tripled over the past decade, straining the limit of Mexico's old transportation infrastructure. The Mexican government is investing heavily in roads, ports and intermodal expansion to make industry and exports more competitive.

## Selling Factors/Techniques

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In addition to developing strong working relationships with Mexican partners, U.S. firms should use Spanish-language materials and speak Spanish whenever possible while doing business in Mexico. Hiring local staff can help facilitate these relationships and provide U.S. companies with insights on selling to the Mexican market. Mexicans tend to be extremely price conscious.

Often business deals are made during meals, most often lunch. Business lunches tend to be late in the afternoon and last several hours.

## Electronic Commerce

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E-commerce between organizations and companies, either business to business (B2B) or government to business (G2B), has been developing much faster than e-commerce with consumers (B2C). This is mainly due to three main factors: 1) PC and Internet penetration among households is very low, 2) individuals are more reluctant and hesitant to interact with machines, and 3) many individuals still don't have either a bank account or credit card with which to pay for online transactions.

Companies and the Mexican Government are investing heavily in their IT infrastructure to promote e-commerce between clients, suppliers, government and individuals. Given that this market will grow in the future, there are great opportunities for suppliers of specialized and segmented solutions based on economic activity. The biggest market is enterprise solutions to help companies integrate and automate their communications

For more detailed information on e-commerce in Mexico, please visit our Market Research Library at http://www.export.gov/mrktresearch and search for “Electronic Commerce in Mexico”.

Following is a representative list of companies and organizations active in e-commerce activities in Mexico:

EFICENTRUM: http://www.eficentrum.com

NEGOCIOS Y APLICACIONES EN INTERNET: http://www.i-negocios.com

TERRA NEGOCIOS: http://www.terranegocios.com.mx

COMPRANET – Government Contracting: http://www.compranet.gob.mx/

TRAMITANET – Government Procurement: http://www.tramitanet.gob.mx/

AMECE – Asociación Mexicana de Comercio Electrónico (Mexican Association of E-commerce): http://www.amece.org.mx/

AMIPCI – Asociacion Mexicana de Internet (Mexican Association of Internet): http://www.amipci.org.mx/

VISA: www.visa.com

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CS Mexico provides on-line advertising for U.S. and Mexican companies under the Business Service Provider (BSP) and Featured U.S. Exporter (FUSE) programs. For more information, please click:

CS Mexico BSP Directory:
https://www.buyusa.gov/mexico/en/business_service_providers.html

CS Mexico FUSE Directory:
https://www.buyusa.gov/mexico/es/oportunidades_negocios.html

Mexico offers a wide variety of trade fairs spanning many sectors and industries. To access a list of trade events that CS Mexico is supporting, please see Chapter 9. The following companies organize trade shows in Mexico:

AMFAR: http://www.amfar.com.mx

Asociación Nacional de Productos Naturales A.C.: http://www.anipron.org.mx

Centro Banamex: www.centrobanamex.com

Centro Impulsor de la Construcción y la Habitación A.C.: http://www.cihac.com.mx

Universitarea, Círculo de Profesiones S.A. de C.V.: http://www.universitarea.com.mx

EJ Krause de México S.A. de C.V.: http://www.ejkrause.com.mx

Expo Convenciones: http://www.expoconvenciones.com

Expo México, S. A. de C. V.: http://www.expomexicosadecv.com.mx

Expopublícitas: http://www.expopublicitas.com

Gavsa Exposiciones: http://www.gavsa.com

Grupo Salpro, S.A. de C.V.: http://www.mexicandesign.com

Remex: http://www.remexexpos.com.mx

Tradex Exposiciones Internacionales: http://www.tradex.com.mx

World Trade Center: www.exposwtc.com

According to data provided by the National Chamber of the Publishing Industry, more than 420 newspapers and 1600 magazines are published in Mexico. Many magazines are industry-specific. CS Mexico has extensive media lists available for U.S. companies. Given the size of the country and the diverse nature of the media in the various regions in Mexico, the list of media is too lengthy to mention here. Advertising in Mexican print media is usually more expensive than in the United States. Advertising rates are generally commensurate to those of large international cities.

Advertising on billboards is also common in Mexico. There are more than 100 billboard companies in Mexico offering various kinds of billboards, ranging from plain paper billboards to electronically controlled billboards. According to data provided by Medios Publicitarios Mexicanos, there are over 130 advertising agencies, 40 market research companies, 8 direct mailing companies, 20 sales promotion agencies and 8 direct marketing agencies.

## Pricing

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U.S. exporters should look carefully at import duties for agricultural products (taking into account the NAFTA progressive tariff reductions), brokers' fees, transportation costs, and taxes to determine if the product/service can be priced competitively. U.S. companies shipping goods not made in the United States will be subject to the appropriate duties and tariffs.

The import duty, if applicable, is calculated on the U.S. plant value (f.o.b. price) of the product, plus the inland U.S. freight charges to the border and any other costs listed separately on the invoice and paid by the importer. These can include charges such as export packaging, inland freight cost, and insurance.

Value Added Tax (IVA)

Mexican Customs collects a value-added tax or IVA from the importer, on foreign transactions, upon entry of the merchandise into Mexico. This IVA is assessed on the cumulative value consisting of the U.S. plant value (f.o.b. price) of the product(s), plus the inland U.S. freight charges, any other costs listed separately on the invoice such as export packing, insurance, plus the duty, if applicable.

The IVA is 10 percent for products exported to the "border zone," defined as 20 km from the U.S.-Mexico border. For final shipping points, other than the border zone, a 15 percent IVA is charged. The importer will pay other IVA fees for such services as inland

Mexico freight, warehousing, and custom brokerage fees, if applicable. The IVA typically is recovered at the point of sale when the product is sold. Sales of real property (real estate) within the border zone are taxed at the 15 percent IVA rate.

Estimated minimum prices

To avoid dumping practices, the Mexican authorities have set minimum prices for a wide range of imported products, including textiles, clothing, leather products, shoes, some metals, stationary products, tools, some glass products, bicycles, children's accessories, and others. These minimum prices will be taken as the base for calculating any duty or taxes, if applicable, for all products imported under certain Harmonized System Codes.

## Sales Service/Customer Support Return to top

Service and price are extremely important to Mexican buyers. In many industries, the decision to select a supplier depends on the demonstrated commitment to service after the sale has been made. This has been the most effective tool that third country manufacturers, mostly Japanese, have used to penetrate the market. They offer to have their maintenance personnel at the clients' plant in no more than 48 hours after a service call is made.

Mexican customers are demanding uniform quality control, compliance with international standards, productivity, lower production costs, just-in-time deliveries and above all, reliable local service and maintenance programs. This last factor has become, in many instances, even more important than pricing or financing. Many Mexican firms employ English-speaking staff, but it is a good idea for the U.S. company to employ Spanish-speaking sales representatives. Providing appropriate training, product support, and timely supply of spare parts is critical for success. The U.S. exporter should also schedule annual visits of Mexican personnel to the U.S. companies for training. All Mexicans traveling to the United States for training or other business purposes need a visa – more information on the visa process is provided in Chapter 8. Another factor to consider is financing, as the commercial and industrial sectors' resources are limited due to high interest rates. More information on financing options can be found in Chapter 7.

## Protecting Your Intellectual Property Return to top

Two different laws provide the core legal basis for protection of intellectual property rights (IPR) in Mexico -- the Industrial Property Law (Ley de Propiedad Industrial) and the Federal Copyright Law (Ley Federal del Derecho de Autor). Multiple federal agencies are responsible for various aspects of IPR protection in Mexico. The Office of the Attorney General (Procuraduría General de la Republica, or PGR) has a specialized unit that pursues criminal IPR investigations. The Mexican Institute of Industrial Property (Instituto Mexicano de la Propiedad Industrial, or IMPI) administers Mexico's trademark and patent registries and is responsible for handling administrative cases of IPR infringement. The National Institute of Author Rights (Instituto Nacional del Derecho de Autor) administers Mexico's copyright register and also provides legal advice and mediation services to copyright owners who believe their rights have been infringed. Mexico Customs Service (Aduana México) plays a key role in ensuring that illegal goods do not cross Mexico's borders.

Despite strengthened enforcement efforts by Mexico's federal authorities over the past several years, weak penalties and other obstacles to effective IPR protection have failed to deter the rampant piracy and counterfeiting found throughout the country. The U.S. Government continues to work with its Mexican counterparts to improve the business climate for owners of intellectual property.

Please refer to the Embassy's IPR Toolkit for more information: http://mexico.usembassy.gov/mexico/IPR.html.

Mexico is a signatory of at least fifteen international treaties, including the Paris Convention for the Protection of Industrial Property, the NAFTA, and the WTO Agreement on Trade-related Aspects of Intellectual Property Rights. Though Mexico signed the Patent Cooperation Treaty in Geneva, Switzerland in 1994, which allows for simplified patent registration procedure when applying for patents in more than one country at the same time, it is necessary to register any patent or trademark in Mexico in order to claim an exclusive right to any given product. A prior registration in the United States does not guarantee its exclusivity and proper use in Mexico, but serves merely as support for the authenticity of any claim you might make, should you take legal action in Mexico.

An English-language overview of Mexico's IPR regime can be found on the WIPO website at: http://www.wipo.int/about-ip/en/ipworldwide/pdf/mx.pdf.

Although a firm or individual may apply directly, most foreign firms hire local law firms specializing in intellectual property. The U.S. Embassy's Commercial Section maintains a list of such law firms in Mexico at: http://www.buyusa.gov/mexico/en/business_service_providers.html.

## Due Diligence Return to top

U.S. firms must keep in mind that it is recommended to do due diligence on a Mexican firm or individual before entering in any type of agreement. In Mexico's larger cities, it is possible to find a local consulting or law firm that can find information on a firm or individual. Also, local chambers and associations can assist U.S. firms in locating economic reports on a particular firm.

There are only a few private firms that do due diligence all over the country. U.S. firms should know that the U.S. Commercial Service has a service called International Company Profile (ICP) that can be ordered from our offices in Tijuana, Monterrey, Guadalajara, and Mexico City. The ICP is a report in English that includes financial and commercial information on a Mexican firm or an individual. The service can also be ordered and paid for in any of the more than 100 U.S. Commercial Service Export Assistance Centers located in major cities of the United States.

## Local Professional Services Return to top

CS Mexico has a wide variety of professional services lists that can be provided to U.S. companies free of charge. If company-specific information is needed or detailed research would be required to provide a list of service providers, a fee would apply.

Additionally, the following associations could be helpful for U.S. firms seeking more information on professional services:

The Mexican Association of Accounting Firms: http://www.amcp.org.mx

The Mexican Association of Electrical and Electronic Communications Engineers: http://www.amicee.org.mx

The Mexican Association of Information-Technology Industries: http://www.amiti.org.mx

The Mexican Association of Insurance Institutions: http://www.amis.com.mx

The Mexican Bankers' Association: http://www.abm.com.mx

The Mexican College of Architects: http://www.camsam.org

The National Auto-Freight-Transport Chamber: http://www.canacar.com.mx

The National Chamber of Consulting Companies: http://www.cnec.org.mx

## Marketing to Manufacturers Initiative

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Mexico is, for many companies, a natural extension of their sales program in the U.S. Thanks to the North American Free Trade Agreement (NAFTA), U.S. exporters often enjoy competitive advantages in exporting to Mexico. The proximity of Mexico can mean that U.S. exporters have significantly lower logistics costs, especially for larger items, than their Asian and European competitors.

Since the signing of NAFTA in 1993, Mexico has continued to expand its manufacturing base considerably. Bilateral trade between the U.S. and Mexico has grown over 200% in the last 12 years. Manufacturers continue to be drawn to Mexico, particularly to the northern region, as a result of its proximity to the consumer markets of the U.S. and Canada coupled with its lower pay scale. As a result, foreign direct investment has continued to flow into Mexico at the rate of an additional $18 billion per year – most of it directed at manufacturing.

To contact us about opportunities to increase your exports to Mexico's manufacturing sector, please visit our Marketing to Manufacturers website at: http://www.buyusa.gov/mexico/en/145.html or contact Daniel Crocker, Principal Commercial Officer in Monterrey at: Daniel.Crocker@mail.doc.gov.

## Web Resources

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U.S. Chamber of Commerce, Amcham: http://amcham.com.mx

Confederation of the Industry for Marketing Communication: http://www.cicom.org.mx/

Mexican Government Procurement portal: http://www.compranet.gob.net

The Mexican Institute of Industrial Property: http://www.impi.gob.mx

U.S. Department of Commerce IPR Portal: http://www.stopfakes.gov

The World Intellectual Property Organization: http://www.wipo.int

U.S. Embassy Mexico IPR Toolkit: http://mexico.usembassy.gov/mexico/IPR.html

CS Mexico Marketing to Manufacturers: http://www.buyusa.gov/mexico/en/145.html

Mexican Maquila Information Center: http://www.maquilaportal.com

America's Data Systems Global: http://www.maquilamarket.com

Industrial Directories: http://www.solunet-infomex.com

Mexico's Industrial Magazine: http://www.twin-plant-news.com

Maqguide.com Business Directories: http://www.maqguide.com

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# Chapter 4: Leading Sectors for U.S. Export and Investment



**Commercial Sectors**

## Airport & Ground Support Equipment

### Overview

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Mexico has the most developed airport infrastructure in Latin America. Every city of more than 50,000 inhabitants benefits from airport services. The Mexico City airport is the largest in Latin America in terms of number of passengers and operations.

In 1998, the Mexican government started a process to privatize the operation of the national airport system though concessions granted through a public bid process. Airports to be privatized were grouped into three groups by geographical regions: Pacific region, North region and South region. Some airports continued to be operated by federal or state agencies. As a result, three private groups now operate 44 airports in Mexico and 22 airports are operated by government agencies. Of these airports, 40 are international and 26 operate only domestic flights.

(USD$ Millions) AIRPORT AND GROUND SUPPORT EQUIPMENT

| | 2003 | 2004 | 2005+ |
|---|---|---|---|
| Total Market Size | 9,617 | 11,457 | 12,488 |
| Total Local Production | 2,290 | 2,496 | 2,498 |
| Total Exports | 2,226 | 2,261 | 2,625 |
| Total Imports | 9,553 | 11,582 | 12,624 |
| Imports from the U.S. | 8,597 | 10,423 | 10,944 |

(Exchange rate: 1 USD = 10.70 pesos)
Sources:

1. Communications and Transportations Secretariat (SCT) Statistics annual report
2. SCT' s North American Transportation Statistics
3. Aeropuertos y Servicios Auxiliares (ASA) Statistics
4. National Institute of Geographical and Statistic Data (INEGI)
5. World Trade Atlas (BANCOMEXT)
6. Secretary of Economy

Note: These are 2005 figures, as updated information could not be obtained.

### Domestic Production and Best Prospects

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Mexico has also developed an aerospace industry and important international corporations have established plants in 13 Mexican states. Some companies manufacturing or assembling in Mexico are Honeywell Aerospace, Lockheed Martin. Volare Engineering, Bombardier, Tyco Electronics, Horizon Sport Technologies, General Dynamics, Teleflex Aerospace, General Electric, and GKN Aerospace. Aerospace industry groups have announced investments totaling about USD 379 million in the next few years.

### Opportunities

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The Mexican airport network will offer huge opportunities for suppliers of all kind of equipment and services for airport planning, building, operating and aviation control. American firms should take more advantage of NAFTA conditions and become more aggressive in this sector. The U.S. Commercial Service in Mexico can provide information on new projects and support introduction of products into this market.

In the nineties, the number of passengers doubled and transported freight tripled, hence provoking a chronic saturation of Mexican airports. Facing this rapid increase, the government has decided to restructure the airport network.

The strategy is focused on developing a Metropolitan System of Airports to decentralize the operations of the Mexico City airport, using four peripheral airports: Toluca, Puebla, Cuernavaca and Querétaro. Other airports will also receive investment to increase capacity and improve cargo and passenger services. At the same time, most Mexican airlines have programs to renovate or increase their fleets.

Some important announced investments include:

- The Federal Government will invest USD 227 million in 2007 to continue with the expansion of the Mexico City airport.
- Grupo Aeroportuario del Pacifico will invest USD 110 million to increase infrastructure in the 12 airports operated by the group, including doubling capacity of the facilities in Los Cabos and Puerto Vallarta.
- Puebla airport will continue expanding passenger facilities and will start the construction of cargo facilities.
- The airports in Guadalajara and Monterrey will be expanded to include cargo hubs connecting with other domestic and international airports.
- A cargo terminal will be built at the Aguascalientes airport at an estimated cost of USD 2 billion.
- Toluca airport will expand facilities for corporate/private aviation and for Express Delivery Services (EDS).
- The EDS firm Estafeta will purchase four new aircraft to increase its fleet.
- Aeromexico will invest USD 600 million to renovate its fleet, bringing their fleet up to 66 aircraft by the end of 2011.

**Resources** Return to top

Some useful resources in this sector include:

Secretariat of Communications and Transport: www.sct.gob.mx

Aeropuertos y Servicios Auxiliares: www.asa.gob.mx

Grupo Aeroportuario del Pacífico: www.aeropuertosgap.com.mx

Grupo Aeroportuario del Centro Norte: www.oma.aero

Aeropuertos del Sureste: www.asur.com.mx

For more information on the airport and aviation sector in Mexico, please contact:

Alicia Herrera, Senior Commercial Specialist
U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2629
Fax: (011-52-55) 5566-1111
E-mail: alicia.herrera@mail.doc.gov

2/7/2007

## Automotive Parts & Supplies

### Overview

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(USD$ Billions) AUTO PARTS PRODUCTION FOR OEM AND AFTERMARKET

| | 2004 | 2005 | 2006 estimate |
|---|---|---|---|
| Total Market Size | 22.6 | 24.1 | 26.2 |
| Total Local Production | 15.1 | 16.1 | 17.5 |
| Total Exports | 12.6 | 13.4 | 14.5 |
| Total Imports | 20.0 | 21.3 | 23.1 |

Source: U.S Dept. of Commerce Bureau of the Census and information obtained with interviews from industry sources, including importers, wholesalers, and retail auto-parts shops.

Mexico's auto part industry is closely related to the U.S. industry. There are approximately one thousand auto parts manufacturers in Mexico and about 70% of them are subsidiaries of foreign corporations, mainly from the United States.

TOTAL NUMBER OF VEHICLES – AUTOMOBILES AND TRUCKS

| | 2004 | 2005 | 2006 estimate |
|---|---|---|---|
| Total units produced | 1,568,430 | 1,670,378 | 1,778,953 |
| Total units sold in country | 1,121,068 | 1,193,937 | 1,271,543 |
| Total units imported | 682,316 | 726,667 | 776,080 |
| Total units exported | 1,195,147 | 1,132,504 | 1,206,117 |

Source: KASO & Asociados, Automotive Consulting Group and Sec de la Economia.

Fifty eight percent of the automobiles sold in Mexico are imported, of which 75% come from the United States. During 2000, automotive production reached a record high of 1,889,486 units, by 2004, that amount was reduced to 1,568,430 vehicles. The Mexican Association of the Automotive Industry (AMIA) stated that exports were over 1,434,110 units in 2000 and of only 1,132,504 in 2004, however, due to a tremendous growth of the industry during 2005 and 2006, exports will reach a figure of over 1,750,000 during 2006.

U.S. exports of parts, equipment and first and second tier components have experienced an increase in exports due to increased Mexican production of new models that have shifted from U.S. assembly plants.

### Best Prospects/Services

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The greatest opportunities for automotive aftermarket parts include: collision repair parts, catalytic converters, steering wheels and sound systems and generally all types of accessories.

In the first and second tier supply chain sector, the best export opportunities for U.S. firms are basically OEM parts and components, as well as materials, pre-assembly components such as small and progressive stampings, electronic components, equipment and specialized tooling.

## Opportunities

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U.S. parts, component and equipment manufacturers will see increased export sales to assembly plants being relocated to Mexico. A larger number of used vehicles were recently authorized to be imported. This will provide ample opportunities for exports of repair equipment and parts.

## Resources

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Some useful resources in this sector include:

State of Jalisco Autoparts Distributors Association: http://www.rujac.com

The National Association of the Manufacturers of Buses, Trucks and Tractor Trailers: http://www.expotransporteanpact.com.mx

National Autoparts Industry Association: http://www.ina.com.mx

Mexican Association of Automobile Distributors: http://www.amda.org.mx

Mexican Association of Automotive Industries: http://www.amia.com.mx

National Association of Bus and Cargo Trucks Producers: http://www.anpact.com.mx

National Chamber of Cargo Transports: http://www.canacar.com.mx

For more information on the automotive parts and supplies sector in Mexico, please contact:

Ernesto De Keratry, Senior Commercial Specialist
U.S. Commercial Service, U.S. Consulate General, Monterrey
Tel: (011-52-81) 8343-4450
Fax: (011-52-81) 8343-4440
Ernesto.dekeratry@mail.doc.gov

Monica Martinez, Trade Specialist
U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2628
Fax: (011-52-55) 5566-1111
Monica.martinez@mail.doc.gov

## Education & Training Services

### Overview
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Mexico remains the seventh-leading place of origin for students coming to the United States, and is one of only four non-Asian countries among the top ten. Enrollment has steadily increased since the mid-90s (except for a slight decline last year).

In the academic year 2005/06, there were 13,931 students from Mexico studying in the United States (up 6.6% from the previous year). The majority of Mexican students study at the undergraduate level (58.9%) with 29.8% in graduate studies and 11.2% at community colleges & in ESL programs.

| Year | # of Students from Mexico | % of Mexican Students as compared to Total Foreign Students in US |
|---|---|---|
| 2005/06 | 13,931 | 2.5% |
| 2004/05 | 13,063 | 2.3% |
| 2003/04 | 13, 329 | 2.3% |

*Source: Open Doors 2006, Educational Sector Publication

There is a growing demand for English language competency within Mexican higher education. In order to increase the knowledge of a second language in this competitive market, several Mexican private universities use the TOEFL Institutional exam as a requirement for students in all fields of study. It is estimated that between 4-6% of Mexican ESL students travel abroad for intensive English programs to prepare for the TOEFL.

The vast majority of private schools in Mexico, from elementary school to college level, teaches and requires English as part of their curriculum. The Mexican government has introduced ESL basic programs in some public high schools and will gradually launch those programs at middle and elementary schools.

The need for strong international programs in higher education has become a need among Mexican universities as businesses in the 21st century are being conducted in a global environment. Private and public universities in Mexico are looking to develop more relationships with international universities to offer exchange programs and dual degree programs. Mexican universities are seeking new ways to provide diverse, multicultural, and international educational experiences for their students.

**Training services:**
As a result of the competition in the global market, forward-looking companies and institutions are developing and promoting a new working culture that increases personal and professional development opportunities for their employees.

Public schools have been working with the private sector and local/federal governments in order to improve their programs by focusing on preparing students for an international business environment. Also, large companies have partnered with private and public universities to enhance their employees' academic levels, particularly in the area of graduate education.

Training companies wishing to take advantage of this trend have to be flexible and sensitive to the needs of the Mexican market. The demand is for tailor-made programs conducted in Spanish.

## Best Prospects/Services Return to top

English as a Second Language Programs for students and corporate training programs in management, leadership and executive-level language proficiency.

Dual-degree programs in international business, management, finance, etc. (undergraduate and graduate level).

## Opportunities Return to top

Potential opportunities for U.S. schools and universities include: recruiting Mexican students to study in the U.S., agreements with local schools/universities to offer joint programs, dual certification and exchange programs for students and training programs in technical and executive areas as well as human development.

## Resources Return to top

Some useful resources in this sector include:

Education USA – Mexico: http://www.usembassy-mexico.gov/educationusa

Secretaría de Educación Pública: http://www.sep.gob.mx

Asociación Nacional de Universidades y Escuelas de Educación Superior: http://www.anuies.mx

Consejo Nacional de Ciencia y Tecnología: http://www.conacyt.mx

Institute of International Education: http://www.iie.org

For more information on the education and training services sector in Mexico, please contact:

Martha Sanchez, Commercial Assistant
U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2621
Fax: (011-52-55) 5566-1111
Martha.sanchez@mail.doc.gov

## Electronic Components

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(US$ Millions)

| | 2003 | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|---|
| Total Market Size | 25,581 | 30,198 | 34,211 | 40,100 |
| Total Local Production | 1,110 | 1,200 | 1,100 | 1,100 |
| Total Imports | 24,471 | 28,998 | 33,111 | 39,000 |
| Imports from the U.S. | 21,229 | 20,188 | 18,244 | 20,068 |

Source: Secretary of Economy (World Trade Atlas) and Electronic and Telecommunications Industry Chamber (CANIETI). Local production is estimated based on Secretary of Economy and CANIETI figures.

Mexico's electronic industry continues to evolve, due in part by NAFTA and the growing competition from Asian countries. In addition, the growth of electronic components has lately been driven by a switch to new product lines including in the aerospace, automotive, network equipment, game consoles, printers, high capacity servers, storage media, and consumer electronics industries, which continue to be the largest user of electronic components. Consumer electronics is the second most important export manufacturing industry in Mexico, and according to the Chamber of Electronics, in 2005 contributed approximately 4.5 percent to Mexico's manufacturing GDP.

In 2005, about 38 percent of all electronic components imported to Mexico were from the United States, representing a 9.63 percent decrease from the previous year. Nevertheless, China had an increase of 31 percent, while Japan and Korea had increases of 26 percent and 29 percent respectively.

There are competitive advantages for Mexican electronic firms to import components from U.S. suppliers under NAFTA, including short lead times in transportation, virtually 100 percent duty-free electronic components, and streamlined customs procedures. In addition, NAFTA has led to increased foreign direct investment, and many of the original equipment manufacturers are U.S. investment operations that utilize U.S. components in their designs. U.S. market share has declined, however, due to the Mexican Government's PROSEC program, which established MFN tariffs of zero or 5 percent for many categories of industrial inputs, thereby eroding the value of NAFTA duty-free entry for U.S. suppliers.

In recent years, Mexico's exports of electronic products have considerably increased and returned to 2001 levels. In 2005, electronics exports reached US$ 51.7 billion, almost a 10 percent increase from 2004. The main manufacturing sub-sectors continued to be information technologies (33%) and audio and video (30%). U.S. exports of electronic components are directly linked to Mexico's success in exporting finished manufactured electronic products.

Mexico has two main centers for the electronic industry: Tijuana, Baja California and Guadalajara, Jalisco:

a) Baja California is the Mexican border state with the greatest number of electronics plants (105) employing approximately 65,000 people. According to Baja California's Economic Development Office, in 2006, maquiladoras in the State produced 17.5 million television sets and computer monitors. The seven largest electronic maquiladoras are Hitachi, JVC, Matsushita, Sanyo, Samsung, Sony, and Sharp. While some of these plants continue to produce conventional television and computer monitor sets, they switched to the manufacture of the latest technologies including flat screen sets: Liquid Crystal Diode (LCD), Digital Light Processing (DLP) and plasma. Nevertheless, conventional televisions still make up approximately 18 percent of all production and destined for the Latin American, African and Asian markets. Most of these companies have the same requirements for suppliers: 9000 ISO certification, just-in-time delivery, production capacity and competitive prices.

b) Manufacturing in Guadalajara is focused on computer related hardware and telecommunications products. Guadalajara's electronic manufacturing is mainly based in contract manufacturing (CMs) operations, including CMs such as Flextronics, Solectron, SCI Sanmina and Jabil Circuit that work for OEMs such as IBM, HP or Cisco to mention some of them. Local companies in the electronics industry are switching from manufacturing PCs to niche products that require more advance technology, such as rackable servers, and by offering more customized business solutions services to a variety of industries.

The major components and parts imported by the electronics manufacturing industry under HTS 85 during 2005 were: digital monolithic integrated circuits; parts/antenna for transmission for radio and television; monolithic integrated circuits, other than digital; printed circuits, cathode-ray, television picture tubes for color monitors; electrical apparatus; hybrid integrated circuits; insulated electric conductors; electric motor parts, generators; static converters and power supplies; ceramic dielectric, multiplayer fixed capacitors; insulated electric conductors; electric switches for voltage not over 1000 volts; parts and accessories for sound and video reproducing apparatus; diodes ex-photosensitive or light-emitting diodes; electrical inductors; electrical conductors; indicator panels incorporating LCD's and cards electrically integrated.

## Best Prospects/Services Return to top

In 2005 the most significant U.S. electronic components exported to Mexico were switches, plugs and relays, valued at US$ $2.6 billion, followed by integrated circuits, valued at US$ 2.2 billion.

A negative trend is that one of Mexico's highest value import categories, the semiconductor sector, is increasingly shifting in origin from the United States to Japan, Taiwan, Malaysia, Korea and Singapore. U.S. semiconductor exports to Mexico fell from US$2.6 billion in 2003 to US$1.8 billion in 2005. In 2004, the U.S. was the leading supplier in nine of the 10 top imports to Mexico, but during 2005, lost market share in four categories, HS 8504, 8534, 8529, 8541, which have gone to China, Korea and Japan.

## Opportunities Return to top

As Mexican manufacturing of electronic products becomes more complex, U.S. companies can find opportunities in new sectors such as batteries, antennas and switches, relays and plugs. Also, U.S suppliers of services related to electronic components such as logistics, scrap management, inventory management, etc., can find opportunities in the Mexican market.

In Tijuana and Guadalajara, distribution channels to manufacturers are controlled by numerous distribution/representation companies - some of them located in San Diego, right across the border from Tijuana that serve the Baja California region. These firms usually have an electronic components portfolio that includes different product lines. In most cases, U.S. firms interested in entering this market will need to hire one of these distribution/representation companies to serve as contract manufacturers. In addition, inclusion in the approved material list determined by the original equipment manufacturers is often a requirement to sell any critical electronic component to the contract manufacturer. These distributors/representatives can be contacted using the services of the US Commercial Service.

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Judith Valdes
U.S. Commercial Service Tijuana
Tel. 52-664-622-7400
Judith.Valdes@mail.doc.gov

Gabriela Hernandez
U.S. Commercial Service Guadalajara
Ph. 52-33-3615-0980 Fax 52-33-3615-7665
Gabriela.Hernandez@mail.doc.gov

## Energy Sector

## Overview

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This sector includes the sub-sectors of Oil and Gas (OGM) and Electric Power Systems, (ELP) Equipment and Services. With the start of a new administration, both sub-sectors have been identified to be a priority for Mexico's Federal Government. The demand for imported equipment and services increased seven percent from 2005 to 2006. U.S. exports to Mexico also have grown at an average of 8.5 percent during the same period. The total market is expected to grow at an average of 6.7 percent annually from 2006 to 2007. The competition will continue to come from Japanese, Chinese, Taiwanese, German and Canadian companies.

(USD$ Millions) TRENDS IN THE ENERGY MARKET*

| | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|
| Total Market Size | 9,584.0 | 10,063.2 | 10,738.4 |
| Total Local Production | 4,985.0 | 5,184.4 | 5,391.8 |
| Total Exports | 11,921.0 | 12,632.4 | 13,390.3 |
| Total Imports | 16,520.0 | 17,511.2 | 18,736.9 |
| Imports from the U.S. | 11,280.0 | 12,082.7 | 13,109.7 |

*(Exchange rate: 1 USD = 11.5 pesos)
** Based on statistics available from January to November 2006 (11 months).

Source of information: BANCOMEXT, -Mexican Import/Export Bank statistics, Secretary of Economy Statistics, Government Owned Petroleum Company –PEMEX and The Federal Electricity Commission-CFE official information and interviews with members of the Mexican College of Petroleum Engineers, and representatives of U.S. companies in Mexico.

(USD$ Millions) OIL AND GAS SUB-SECTOR

| | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|
| Total Market Size | 5,742.0 | 5,725.8 | 6,083.9 |
| Total Local Production | 1,805.0 | 1,877.2 | 1,952.4 |
| Total Exports | 973.0 | 1,356.0 | 1,437.4 |
| Total Imports | 4,910.0 | 5,204.6 | 5,568.9 |
| Imports from the U.S. | 3,289.7 | 3,591.2 | 3,896.4 |

(USD$ Millions) ELECTRICAL POWER SYSTEMS SUB-SECTOR

| | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|
| Total Market Size | 3,842.0 | 4,337.4 | 4,654.5 |
| Total Local Production | 3,180.0 | 3,307.2 | 3,439.4 |
| Total Exports | 10,948.0 | 11,276.4 | 11,952.9 |
| Total Imports | 11,610.0 | 12,306.6 | 13,168.0 |
| Imports from the U.S. | 7,990.3 | 8,491.5 | 9,213.3 |

Mexico's Energy sector between 2000 and 2006 has been going through a modernization process in which large budgets have been assigned to the three most important federal agencies: Government Owned-Petroleum Company (PEMEX), the Federal Electricity Commission (CFE) and Luz y Fuerza del Centro (the federally owned

Mexico City power company). In 2003-2006, Pemex awarded 43 platforms to private companies; CFE awarded 16 power plants. In the same period one LNG plant has been completed and another is in the construction process. The total budget for the three federal agencies for 2007 is expected to be over US$30 billion.

## Best Prospects/Services

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The best prospects for U.S. firms include: drilling of work-over-rigs, to be used in the exploration, discovery, development, maintenance, testing, depletion or production of oil and natural gas wells; pipe; valves; pumps; electrical apparatus for switching; insulated wire cable; electric capacitors, board panels; electric transformers; electric motors and generators; static converters; and rotary converters.

## Opportunities

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In 2007 Pemex, CFE and Luz y Fuerza plan to announce domestic and international tenders for the modernization of the Salina Cruz Refinery; construction of a new LNG plant; four deep water exploration services contracts; three natural gas exploration projects (multiple services contracts); a combined cycle-solar power plant; gas wells; mini-hydraulic projects in the South of Mexico; wind to energy projects and geothermal; etc.

In 2007 Pemex plans to publish international tenders to build 10 new platforms and over 30 international tenders for more than 200 kilometers of pipelines. Also, in 2006, CFE plans to publish ten tenders for new power plants and upgrading of existing power plants, including a wind-to-energy plant, one hydroelectric plant and several combined cycle plants with a total capacity of 3,516 megaWatts.

## Resources

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Some useful resources in this sector include:

National Bank for Imports and Exports: http://www.bancomext.com

Secretary of Energy: http://www.energia.gob.mx

Secretary of Economy: http://www.economia.gob.mx

Government-Owned Petroleum Company-PEMEX: http://www.pemex.gob.mx

Federal Electricity Commission: http://www.cfe.gob.mx

Energy Regulatory Commission: http://www.cre.gob.mx

National Energy Savings Commission: http://www.conae.gob.mx

Central Light and Power Company: http://www.lfc.gob.mx

College of Petroleum Engineers of Mexico: http://www.cipm.org.mx

For more information on the energy sector in Mexico, please contact:

Francisco Ceron, Senior Commercial Specialist (Energy)
U.S. Commercial Service, U.S. Embassy Mexico City

Tel: (011-52-55) 5140-2640
Fax: (011-52-55) 5566-1111
Francisco.ceron@mail.doc.gov

Arturo Dessommes, Commercial Specialist (Electric Power)
U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2638
Fax: (011-52-55) 5566-1111
Arturo.dessommes@mail.doc.gov

## Environmental Sector

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This sector includes the sub-sectors of Pollution Control Equipment (POL) and water resources (WRE) equipment and services. The Mexican environmental market has been growing at an annual average of 5.2 percent during 2004 - 2006 and it is expected to grow at the same average from 2006 to 2007. Major competitors in this market are French, German, Spanish, Canadian, Great Britain and Japanese companies.

(USD$ Millions) TRENDS IN THE ENVIRONMENTAL MARKET

| | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|
| Total Market Size | 5,150.0 | 5,665.0 | 5,964.0 |
| Total Local Production | 2,520.0 | 2,595.6 | 2,686.4 |
| Total Exports | 1,160.0 | 1,206.4 | 1,254.7 |
| Total Imports | 3,790.0 | 4,275.8 | 4,532.3 |
| Imports from the U.S. | 2,790.0 | 3,206.8 | 3,408.3 |

*Exchange Rate (Pesos to the USD: 11.50
** Based on statistics available form January to November 2006 (11 months)

Source of information: BANCOMEXT, -Mexican Import/Export Bank statistics, Secretary of Economy Statistics; statistics from the Secretariat for the Environment and Natural Resources – SEMARNAT; statistics from the National Council of Environmental Executives- CONIECO and interviews with importers, distributors and end-users of environmental equipment and services.

### Best Products/Services

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Best prospects in this sector include: liners for landfills; solid waste containers; solid waste recycling equipment; dust collectors; hazardous and toxic waste transportation equipment; autoclaves for medical waste; medical waste transportation equipment; bio-remediation technology; environmental engineering services; chlorinators; desalination plants; irrigation equipment; primary clarifiers; water pumps; water meters; water leak detectors; water supply and distribution systems; and design and engineering services.

### Opportunities

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According to the Secretariat for the Environment and Natural Resources –SEMARNAT, the priorities set for 2007 to 2009 will be centered on the construction of municipal wastewater treatment plants, industrial waste treatment facilities and sanitary landfills to promote the remediation of soil contaminated sites and increase the infrastructure of potable water in rural and urban areas. Among the projects to be announced are: Construction of 10 municipal wastewater treatment plants in the cities of Metepec, State of Mexico; Puebla, State of Puebla; Hermosillo, State of Sonora; Centro-Villa Hermosa, State of Tabasco; Merida, State of Yucatan; Mexico City; Campeche, Ciudad del Carmen, and Escarcega, State of Campeche; and Berriozabal, State of Chiapas; construction of one industrial waste confinement facility in the city of Viezca, State of Coahuila; construction of sanitary landfills in the cities of Jalapa, State of Veracruz; City of Puebla, State of Puebla; soil remediation sites in the city of Villahermosa, State of

Tabasco;  potable distribution infrastructure in the cities of  San Luis Potosi, Morelia; irrigation projects in the cities of Jalapa, State of Veracruz; Puebla, State of Puebla; Cuernavaca, State of  Morelos; and Hermosillo, State of Sonora.

**Resources** Return to top

Some useful resources in this sector include:

National Bank for Imports and Exports: www.bancomext.gob.mx

Secretariat for the Environment and Natural Resources: http://www.semarnat.gob.mx/

Secretariat for Social Development: http://www.sedesol.gob.mx/

National Water Commission: http://www.cna.gob.mx/

National Institute of Ecology: http://www.ine.gob.mx/

Attorney General for Environmental Protection: http://www.profepa.gob.mx/

Mexican Institute for Water Technology: http://www.imta.gob.mx/

North American Development Bank: http://www.nadbank.org/

National Council of Environmental Executives:  http://www.conieco.com.mx/index.php

National Bank for Public Works: http://www.banobras.gob.mx/

For more information on the environmental sector in Mexico, please contact:

Francisco Ceron, Senior Commercial Specialist
U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2640
Fax: (011-52-55) 5566-1111
Francisco.ceron@mail.doc.gov

## Franchising Sector

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The franchise industry in Mexico has grown between 15 – 20 percent every year over the last decade. In 2006 franchises generated sales over USD 8.5 Billion, proving that the franchise sector is an important source of job creation, self-employment and wealth. Mexico is the 8th leading nation in franchise development according to the World Franchise Council. Conservative estimates indicate that this sector will grow by at least 15 percent in 2007.

Franchises in Mexico are regulated by Article 142 of the Industrial Property Law and Article 65 of its Regulations. Franchise agreements must be registered before the Mexican Institute of Industrial Property in order to be effective against third parties.

On January 26, 2006, an amendment to the Mexican Franchise Regulations (Article 142) was published in the Mexican Official Gazette, stating a new definition of franchise, mandating requirements for franchise agreements, and providing new standards for pre-sale franchise disclosure.

### Best Products/Services
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Although Food concepts (formal / fast food) continue to lead the industry, there are many other sectors that are growing rapidly and successfully in Mexico. Education / Entertainment services for children, Personal Care Services (spas, beauty shops, health care centers), Automotive services, among others, are considered as best prospects for the coming 5 years.

### Opportunities
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Before entering the Mexican market, it is important to note the following:

- Type of Franchise model appropriate for Mexico (Master vs. Regional Franchise)
- Level of Interest in the Mexican market for the products/services that you will be offering (Potential of the market, Product/Service acceptance)
- Training / Support capabilities (Language, resources)
- Product / Service tropicalization: U.S. concepts may not be as popular as in the United States for Mexican customers; be prepared to adapt your products/services to the Mexican culture.

Franchising in Mexico, as in any other country, requires a long-term commitment. The U.S. franchisor must commit human and financial resources, patience and time to make its concept succeed in the Mexican market.

U.S. franchises must be aware that since the Mexican market is dominated by local franchises, a requirement for a successful franchise concept in Mexico is to adapt, or customize, the concept and characteristics to Mexican tastes.

## Resources

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Some useful resources in this sector include:

Asociación Mexicana de Franquicias: www.franquiciasdemexico.org

Feria Internacional de Franquicias: www.fif.com.mx

For more information on the franchising sector in Mexico, please contact:

Martha Sanchez, Commercial Assistant
U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2621
Fax: (011-52-55) 5566-1111
martha.sanchez@mail.doc.gov

## Hotel & Restaurant Equipment

## Overview

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The Mexican Restaurant Industry grew 3.5 percent in 2006, representing two percent of the national GDP according to data provided by the National Chamber of the Restaurant Industry (CANIRAC). Today, the restaurant industry in Mexico registers around 36,000 restaurants in Mexico City and 243,000 nationwide, out of which 96% are micro and small enterprises; and the remaining four percent consists of large restaurants. The industry also generates more than 837,000 jobs throughout Mexico.

The Mexican restaurant industry is changing rapidly and is in need of new technology. The restaurant industry reported annual sales of about USD$15 billion although this figure probably understates true sales. The lack of technology (especially in cold chain equipment) in Mexico and the increasing sophistication of the Mexican consumer generate business opportunities for U.S. exporters of equipment for restaurant industry. Some emerging competitors for U.S. manufacturers are Brazil, China and European countries.

In 2005, the total market for this segment surpassed USD 1.5 billion. The imports from the United States during 2005 increased eight percent compared to 2004.

(USD$ Millions)

| | 2004 | 2005 | 2006 (Jan.-Sept.) |
|---|---|---|---|
| Total Market Size | 1,499.37 | 1,560.92 | 1,181.98 |
| Total Local Production | 792.90 | 816.00 | 691.58 |
| Total Exports | 431.31 | 561.14 | 626.29 |
| Total Imports | 1,137.78 | 1,306.06 | 1,116.69 |
| Imports from the U.S. | 547.03 | 591.49 | 477.99 |

(Bancomext figures available in dollars – no exchange rate needed).
Sources: Bancomext, Mexican Secretariat of Economy (SIEM System) and National Chamber of Restaurants own estimates.

The restaurant equipment industry is divided into two groups: major equipment which primarily consists of refrigeration equipment, machinery for making hot drinks and cooking, commercial conventional ovens and stoves, microwave ovens, refrigerating / freezing display counters, food grinder processors etc. The smaller group includes decorations including furniture, tables, chairs, curtains, kitchen utensils, cutlery, and glassware, among others.

In Mexico, there is local production of ovens, refrigerators by few manufacturers and mostly all the specialized manufacturing equipment is imported from United States and other countries. Even though there is local production, which mainly consists of meat grinders, slicers, refrigerators, freezers, coffee makers, ovens, kitchen furniture and utensils among others, there is a huge market for U.S. exporters. Mexican manufacturers are mainly small to medium-sized companies, which employ less than 50 people.

The industry is spread out from the Northeast to the central part of the country and almost 45 percent of it is concentrated in Monterrey, near the border, but also in Guadalajara and Mexico City. Even though there is some local production, it generally lacks the quality and level of technology of U.S. made equipment.

For more information on Mexico's hotel and restaurant industries, please see the following market research report "Mexico – Overview of the Hotel Industry": http://www.buyusainfo.net/docs/x_3610545.pdf.

**Best Products/Services** Return to top

- Frozen-food display counters
- Food warmers
- Food – temperature measurers
- Stainless steel utensils
- Catering equipment
- Tabletop centerpieces

**Opportunities** Return to top

Under NAFTA, most equipment for hotels and restaurants manufactured in the United States can be imported duty-free into Mexico. U.S. companies offering products for the hotel and restaurant equipment sector should develop efforts to introduce new products into the Mexican market. Interested companies however should be aware that certain segments of the market are price sensitive.

**Resources** Return to top

Some useful resources in this sector include:

National Chamber of Restaurants: http://www.caniracnacional.com.mx/

National Bank of Foreign Trade (Bancomext): www.bancomext.com

Secretariat of Economy: www.economia.gob.mx

Magazine "Industrias Alimentos & Bebidas"

For more information on the hotel and restaurant sector in Mexico, please contact:

Monica Martinez, Commercial Assistant
U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2628
Fax: (011-52-55) 5566-1111
Monica.Martinez@mail.doc.gov

## Housing & Construction

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The Mexican housing construction industry has experienced constant growth over the last 5 years with an average rate of 4.5% per year. The current administration has made housing a priority and assigned additional funds to government institutions that support the development of low-income and pre-fabricated housing. The government also offers support to efforts of private companies (local and foreign) involved in this industry through additional access to capital. With government support and private investment, the housing market is expected to grow at nearly 8% for the foreseeable future.

Low-cost and prefabricated housing initiatives and projects are a priority for the 32 Mexican States, as well as for the Federal government. Governments realize that they cannot solve the housing deficit on their own and that they need the support of private local or foreign companies, as well as international housing foundations or institutions in order to develop housing to meet the growing demand.

If a U.S. firm is interested in entering Mexico's construction industry, one of their best options is to sign a joint venture agreement with a Mexican construction or housing firm that is already playing a significant role in the housing industry. Mexican companies already know the market and the complicated labor and legal aspects involved in doing business in this booming industry. The market is open to new rapid-construction techniques and new materials. U.S. products and services are well accepted in Mexico thanks to NAFTA and the relatively low transportation costs.

For a complete report on the housing and construction industry in Mexico, please see the following market research reports "Mexico: Mexico's Low Income and Pre-Fab Housing Overview '06": http://www.buyusainfo.net/docs/x_5838347.pdf and "Mexico: Mexico's Building and Construction Materials Overview '06": http://www.buyusainfo.net/docs/x_9496230.pdf.

**Market Trends:**
Currently, the market for low-income and pre-fabricated dwellings is expected to continue to grow at an average rate of 5% percent during the next two years. The total housing sector is projected to grow at 8% per year.

The following table shows the results of the housing program at the end of year 2005 and estimations for year 2006:

In US dollars

| Entity | Credits delivered in 2005 | Total investment in 2005 | Credits projected to deliver in 2006 | Investment projected for 2006*** |
|---|---|---|---|---|
| INFONAVIT | 375,000 | $6.2 billions | 435,000 | $7.2 billions |
| FOVISSSTE | 50,000 | $1.3 billions | 70,000 | $1.4 billions |
| SHF | 99,000 | $2.1 billions | 115,000 | $2.7 billions |
| FONHAPO | 92,600 | $0.3 billions | 140,000 | $0.4 billions |
| OTHERS* | 69,000 | $2.6 billions | 110,000 | $5.5 billions |
| SUBTOTAL | 685,600 | $12.5 billions | 870,000 | $17.2 billions |
| REDUCTIONS** | 45,000 | | 120,000 | |
| TOTAL | 640,600 | $12.5 billions | 750,000 | $17.2 billions |

**Best Products/Services** Return to top

Mexico offers good sales opportunities for U.S. manufacturers of housing building materials. Mexican firms are searching for new and rapid construction techniques and new materials (high quality, low prices, easy to use and install). U.S. products and/or services are well accepted in Mexico and U.S. firms have the additional benefit of selling most products duty free under NAFTA.

**Opportunities** Return to top

Construction projects for 2007 include housing, high-rise office buildings, shopping centers, industrial plants, hospitals, theaters, hotels, golf courses and museums total investment for upcoming projects is estimated to be over 6.4 billion dollars. (Data gathered from CANADEVI, CONAVI, CMIC, CNEC, CIHAC, private developers and construction companies).

Major construction companies working with Mexican government housing agencies will drive an increased demand for building materials as compared with the last five years. There are ambitious targets for new homes at the three different social levels. The segments of the market that will demand the most building materials are the lower income, rapid construction and middle income levels.

**Resources** Return to top

Some useful resources in this sector include:

National Chamber for Housing: http://www.canadevi.org.mx

National Housing Council: http://www.conavi.org.mx/

Mexican Chamber for the Construction Industry: http://www.cmic.org

National Chamber for Consulting Firms: http://www.cnec.org.mx

Construction and Housing Development Center: http://www.cihac.com.mx

National Institute for Geography and Statistics: http://www.inegi.gob.mx

Institute of National Housing Fund for Workers: http://infonavit.gob.mx

Government Housing Fund for Federal and State workers:

http://www.issste.gob.mx/fovissste

For more information on the housing and construction sector in Mexico, please contact:

Mr. Adrián Orta
Commercial Specialist, U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2619
Fax: (011-52-55) 5566-1111
adrian.orta@mail.doc.gov

## Plastic Materials/Resins

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Mexico's market for plastic materials and resins is closely connected to the maquila industry's manufacture of electronic products, such as conventional television sets, computer monitors, printers and vacuum cleaners, which have an estimated 40 percent plastic content. However, with the introduction of new technology, namely plasma, DLP (Digital Light Processing) and LCD (Liquid Crystal Display), monitors and television sets have reduced their plastic content to approximately 15 percent. During 2006, Mexico's maquila industry (largely located on Mexico's border with the United States) manufactured approximately 17.5 million television sets and computer monitors, of which 82 percent utilized the new technology. However, these plants increased the overall volume of plastic materials/resins imports by over 10 percent. This is critical, as the industry imports approximately 96 percent of the country's total demand. U.S. industry is the main supplier to this market with an approximate 84 percent market share in 2006.

Mexico has approximately 300 manufacturing facilities that use plastic materials as the main component of their production processes. For over 100 of these plants, at least 40 percent of the content of their products is plastic. As stated before, most of these plants are associated with the electronics industry, but because of new investment and the expansion of Mexico's automotive industry along the border, this sector too is expected to become an important importer of plastic parts/resins.

During the last two years, the import of plastics and plastic articles increased by almost 16 percent, and in 2006, the total import market of plastics/resins for the maquiladora industry ranked the third highest, only after machinery and electronic equipments.

Plastics/Resins Market
(USD $ Millions)

| | 2003 | 2004 | 2005 | 2006 estimated |
|---|---|---|---|---|
| Total Market Size | 5,552 | 6,403 | 7,026 | 7,699 |
| Total Local Production (est.) | 102 | 100 | 281 | 280 |
| Total Imports | 5,450 | 6,303 | 6,745 | 7,419 |
| Imports from the U.S. | 4,360 | 5,340 | 5,575 | 6,076 |

Source: Banco de México and Mexico's Secretary of Economy (World Trade Atlas).

### Best Products/Services
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The most promising plastic materials with the highest potential for growth are: natural plastic (inc. modified) polymers (primary forms); plastic plates, sheets, films, foils & strips; plastic tubes, pipes, hoses and their fittings; polymers of styrene, in primary forms; self-adhesive plates of plastics; polyethers, expoxides and polyesters, in primary forms; polymers of propylene or other olefins; polymers of vinyl chloride etc.; articles of plastics (inc. polymers and resins); containers (boxes, bags, etc.) closures, etc.

**Opportunities** Return to top

BORDERLAND
El Paso, TX. USA
Spring of Every year.
Irma D. Stelley, Show Manager
+1(915) 771-7061 or +1(915) 771-7101
Email - borderland@huntleigh.net
Industrial Technology Trade Show
www.borderland.tradeshow.net
MEXPORT 2007
Otay Mesa, CA. USA
Summer 2004
Otay Mesa Chamber of Commerce
+1(619) 661-6111 or +1(619) 661-6178
Email - info@mexport.org
Industrial Trade Show
www.otaymesa.org

EXPO MANUFACTURA 2007
Monterrey, N.L.
First quarter of every year
www.expomanufactura.org
This show represents an excellent opportunity for U.S. firms to participate and enter the Mexican market.

**Resources** Return to top

Judith Valdes, Commercial Specialist
U.S. Consulate General Tijuana
Tel. 52 664 622-7400
Judith.valdes@mail.doc.gov

a) Maquila Portal: http://www.maquilaportal.com

b) Magazine - Mexico NOW magazine

c) Twin Plan Magazine

## Security & Safety Equipment & Services

## Overview

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The overall market for U.S. security products grew between 15% from 2005 to 2006 but the United States lost some ground as the main provider of imported security equipment to Mexico, dropping from 75 percent to 70 percent of market share. Nevertheless, Mexico's security sector is one of the fastest-growing sectors and is still a best prospect for U.S. companies.

(USD$ Millions) TRENDS IN THE SAFETY & SECURITY MARKET

| | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|
| Total Market Size | 2,773 | 3,230 | 3,714 |
| Total Local Production | 1,395 | 1,485 | 1,707 |
| Total Exports | 739 | 812 | 934 |
| Total Imports | 2,082 | 2,395 | 2,754 |
| Imports from the U.S. | 1,430 | 1,658 | 1,906 |

Exchange rate: In US Dollars.
Sources: National Bank of Foreign Commerce (BANCOMEXT) - Official Mexican Import/Export figures. INEGI, Association of Business Owners of the Mexican Republic (COPARMEX), Mexico Unido Contra la Delincuencia and Mexico Security Market Report, Security Industry Association.

While the Mexican government has tried to act rapidly by instituting new laws and creating new governmental bodies to regulate and enforce them, slow economic growth, inefficient law enforcement, and growth in organized crime coupled with drug trafficking have generated an increasing emphasis on security. Reported offenses that continue to rise most rapidly include attacks against private property, theft, kidnappings, and car jacking. Under these circumstances, most private companies and individuals fund additional security enhancement themselves.

Security is one of the main issues in the political agenda in Mexico. The new Calderón Administration is focused on fighting insecurity and has developed new programs to try to mitigate the large insecurity at all levels. Programs include reforming police, creation of a nationwide criminal database, and a 12.4% increase in the budget focused on security.

For American companies, it is difficult to compete in installation mainly because Mexican companies have access to low wages. Nevertheless, multinational companies prefer to have a foreign expert who understands and applies international standards within the constraints of the Mexican social and legal environments and can respond to those standards. As mentioned above, US companies are losing ground in the Mexican market given Free Trade Agreements with the European Union and Japan. Also, imports from China and Korea will continue to challenge American manufactures and solution providers.

According to the organizers of the Las Americas Security Show in Mexico, annual budgets for companies and/or users is broken down as follows:

| Annual Budget (US dollars) | Percentage |
|---|---|
| Up to $50,000 | 14% |
| $51,000 - $100,000 | 18% |
| $101,000 – $250,000 | 37% |
| $251,000 – 500,000 | 16% |
| $501,000 - $1,000,000 | 8% |
| Over $1,000,000 | 9% |

## Best Products/Services Return to top

Among the best prospects for products and services in the security sector include:

Access, Alarms & CCTV controls
Access control equipment
Explosives detection
GPS Tracking
Information systems
Identification cards
Surveillance & Counter-surveillance
Security consulting
Armored vehicles & bullet resistant materials
Armored jackets & suits
Kidnapping prevention & first response for victims
Personal Alarm Systems
Biometrics
Radio & telecommunications systems
Fire detection & extinguishing
Communications security
Perimeter protection elements
Training & equipment
Law enforcement
Armored vests & anti-riot equipment
Executives & Government official protection
Private Security

## Opportunities Return to top

CCTV systems alone have seen 20% growth, and up to mid 2005 the value of this sub-sector is estimated at US$40 million. The Personal Alarm System business is growing over 40% yearly. Commercial and Industrial Security has grown from US$363 million in 1995 to over US$1 Bn in 2003 and has grown over 20% until 2005, valued at around US$1.5 Bn. The market for armored vehicles, homes & buildings, as well as all armored wear for individuals such as bullet proof vests, and all bullet proof materials have seen a constant 10% increase in the last 2 years.

The professionals who use, evaluate and have a decision-making influence on purchases of safety and security projects are:

- Security officers, police, guards, armed forces
- Air & Sea ports, Hotels Stores, Hospitals, Restaurants, Banking, Building, Parking, Stadiums, Mining, Oil, Transportation, Entertainment & Amusement
- Storage, distribution & Inventory control
- High-level executives, News, Celebrities & Diplomatic corps

## Resources Return to top

Some useful resources in this sector include:

American Chamber of Commerce: www.amcham.com.mx

Asociación Mexicana de Instituciones de Seguro: www.amis.com.mx

Fundación de Agentes Aduanales: www.caaarem.org.mx

Consejo Nacional de Seguridad Privada: www.cnsp.org.mx

Instituto Nacional de Geografía y Estadistica: www.inegi.gob.mx

Data Source Site: www.nationmaster.com

Procaduria General de la Republica: www.pgr.gob.mx

Secretaria de Gobernacion Mexico: www.gobernacion.gob.mx

Secretaria de Seguridad Publica DF Mexico: www.ssp.df.gob.mx

The Freedonia Group: www.freedoniagroup.com

Mexico United Against Crime: www.mexicounido.org

Seguridad en America
Contact: Samuel Ortiz Coleman
E-mail: samortix@seguridadenamerica.com

Ventas de Seguridad
Contact: Julian Arcila
E-mail: jarcila@latinpressinc.com

For more information on the security and safety sector in Mexico, please contact:

Juan Carlos Prieto, Commercial Specialist
U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2634
Fax: (011-52-55) 5566-1111
juancarlos.prieto@mail.doc.gov

## Telecommunications Equipment

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(USD$ Millions) TRENDS IN THE TELECOMMUNICATIONS MARKET

| | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|
| Total Market Size | 6,387 | 7,217 | 8,155 |
| Total Local Production | 4,034 | 4,558 | 5,150 |
| Total Exports | 2,353 | 2,659 | 3,005 |
| Total Imports | 4,706 | 4,752 | 5,370 |
| Imports from the U.S. | 2,824 | 2,858 | 3,229 |

(Figures obtained in dollars – no exchange rate needed).
Source: Total Market Size figures – Selected figures
Source: Imports from the U.S.: US Census: http://www.census.gov/foreign-trade/statistics/product/enduse/exports/c2010.html. All other figures are estimates.

2006 was again a growth year for the whole IT & Telecom industry in Mexico. Continued growth in the sector was triggered by new technologies, applications and regulations. In general, technological convergence and the new Convergence Agreement will generate the need for additional investment and equipment expenditures. Different segments of the industry experienced healthy growth, including: telecom equipment, PCs, software, telecom services, supplies, IT solutions, applications, network equipment, VoIP equipment and fixed and mobile operator network infrastructure.

The industry grew over 11% during 2006 with a total estimated value of US$37Bn. 2006 showed rate of 4.4% of ICT expenditures as compared to the national GDP, the highest annual rate in the Fox Administration’s tenure.

In telecom services, there are 20 million fixed lines (approx. 20% penetration) with Telmex as the dominant carrier with about 93% of market share. In the mobile arena, the sector registered approximately 53 million mobile subscribers. Telcel is the leading provider with nearly 77% of market share followed by Movistar at 14%. At the end of 2006, Grupo Salinas, the controlling interest of rival Iusacell, acquired 100% of Unefon. By the end of 2007, Unefon and Iusacell will be completely merged in branding and marketing, becoming one single company. Currently Iusacell has close to 4% of market share and Unefon has a bit over 2.4%.

## Best Products/Services

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Best products will remain in the convergence area. Following are the main sub-sectors where a majority of new acquisitions will be focused. Each offers great opportunities for American companies to participate in the Mexican IT & Telecom market during 2007:

**CATV:** Cable Television companies are rapidly expanding and are now legally able to offer telephone services.

**Wireless**:  Wireless technologies and applications for corporate and personal uses are the hot topics today.  WiFi and the future WiMAX will provide flexibility and lower cost for connectivity.

**Mobile Services:**  Mobile communications will still be the main growth industry in Mexico.  Mobile operators are experiencing strong growth but are looking for new technologies to generate additional revenue.

**High Definition Equipment**:  Mexico recently approved a new broadcasting law, which will motivate investment in HD equipment by TV and Radio broadcasters.  Mexico has adopted U.S. HDTV Standards.

**Network infrastructure**:  Driven by a gentle opening of the market to competition, convergence and other market forces, we see significant investment in expanding and upgrading fixed-line networks.  This will translate to further deployment of networks and improved technologies.

**VoIP:**  Most carriers are focusing exclusively on IP-based networks.  VoIP is growing in demand and will continue to expand into small and medium-size businesses.

## Opportunities

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The following are areas where the greatest opportunities lie for 2007:

- Government procurements
- Security appliances and software
- Mobile applications
- Broadband applications
- Power Line Communications

## Resources

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Some useful resources in this sector include:

Select, IT & Telecom consultancy firm: http://www.select.com.mx

Comisión Federal de Telecomunicaciones – Telecom Regulator: http://www.cofetel.gob.mx

Cámara Nacional de la Industria Electrónica de Telecomunicaciones e Informática: http://www.canieti.org/

Telecom Research Consortium: http://telecom.cide.edu/home.html

US Census Bureau statistics: http://www.census.gov/foreign-trade/statistics/product/atp/select-atpctry.html

Mexico Census Bureau of Statistics: http://www.inegi.gob.mx/inegi/default.asp

Servicio de Administración Tributaria (SAT) Ministry of Internal Revenue: http://www.sat.gob.mx/nuevo.html

Government Procurement: http://www.tramitanet.gob.mx/

AMIPCI – Asociacion Mexicana de Internet (Mexican Association of Internet): http://www.amipci.org.mx/

CANITEC – Cámara Nacional de la Industria de Televisión por Cable:
http://www.canitec.org/

For more information on the telecommunications sector in Mexico, please contact:

Juan Carlos Prieto, Commercial Specialist
U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2634
Fax: (011-52-55) 5566-1111
juancarlos.prieto@mail.doc.gov

## Transportation Infrastructure Equipment & Services

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The transportation sector is one of the most dynamic and promising in Mexico and will offer many opportunities to do business for suppliers of transportation equipment and services. Newly elected Mexican President Felipe Calderon has announced the decision of the new government to undertake the necessary actions/projects to have an efficient transportation sector, with modern infrastructure and equipment, and services that compete at the international level.

Private sector organizations have expressed that a combined investment, from private and public sectors, of at least 20-30 USD billion per year, will be required to support the infrastructure and equipment needed by Mexicans in the next 6-10 years. As resources are limited compared to requirements, the Government of Mexico (GOM) will give priority to projects with high impact on efficiency and social/economic development.

In 2007, GOM will invest 1.2 USD billion for road infrastructure, 132 million USD to improve digital communication networks, 81 million USD for airport security improvement, and about 190 million USD in port infrastructure and dredging. Other projects already announced for this presidential period include:

- Building a new port in Punta Colonet, at an estimated cost of 1.5 billion USD.
- Building the necessary transportation and urban infrastructure for Punta Colonet Port operation. Estimated cost 2-3 billion USD.
- Developing an intermodal corridor between the ports of Salina Cruz, Oaxaca and Coatzacoalcos, Veracruz to offer an alternative for inter-oceanic traffic now using the Panama Canal. Estimated cost is 1.5 billion USD.
- Expansion of the Port of Veracruz at an estimated cost of US 500 million.
- Construction of several suburban trains in the Mexico City Metropolitan area, at an estimated cost of 5.5 billion USD.
- Construction of new high specification highways, under the concession concept, with an estimated investment of 2.7 billion USD.
- Ferromex Railroads will invest USD 310 million in new locomotives.

Imports of equipment for intermodal transportation have increased significantly in the last 3 years. The import market will continue growing at two-digit percentages, at least for the next 3-4 years.

(USD$ Millions) INTERMODAL TRANSPORTATION MARKET

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Total Market Size | 1,299.9 | 1,445.4 | 1,806.3 |
| Total Local Production | 679.9 | 701.9 | 922.8 |
| Total Exports | 73.4 | 97.8 | 153.8 |
| Total Imports | 693.4 | 841.3 | 1,037.3 |
| Imports from the U.S. | 506.1 | 588.0 | 789.7 |

Source: 2003-2005 import statistics by harmonized system code, provided by Bancomext

Note: Due to changes in Mexican classification of imports, current statistics are not entirely comparable with statistics provided in previous years. However, they confirm the market trends showing the constant growth of this sector in the last five years.

## Domestic Production and Best Products

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Domestic production comprises low-tech equipment (such as front loaders, non-sophisticated traffic control systems, open and closed freight cars, and rail track fixtures) and a strong production of trucks and trailers. International corporations such as Daimler Chrysler, Freightliner, Mercedes Benz, International and Kenworth manufactured over 66,000 trucks during January-September 2006 and are exporting around 50 percent of their production. All high capacity cranes, railroad and lifting equipment are imported. Under NAFTA, most equipment for intermodal transportation manufactured in the U.S. can be imported duty free.

Products having the best prospects in this market include: frame mobile and rotary cranes, self-propelled cranes on tires, front loaders with capacity over 7 tons., mobile platforms, traffic control equipment, diesel electric locomotives, railway maintenance service vehicles, rail and tramway freight cars, automatic unloading wagons, covered and closed cars, assemblies for railway vehicles, containers, chassis, and trailers.

## Opportunities

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In 2005, the U.S. supplied 76 percent of total imports. This share could be increased if American firms take more advantage of NAFTA conditions and become more aggressive in this sector. U.S. Commercial Service Mexico can provide information on new projects and support introduction of products into this market.

## Resources

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Some useful resources in this sector are:

Secretariat of Communications and Transport: www.sct.gob.mx

Association of the Manufacturers of Buses, Trucks and Trailers: www.anpact.com

For more information on the transportation sector in Mexico, please contact:

Alicia Herrera, Senior Commercial Specialist
U.S. Commercial Service, Mexico City
Tel: (011-52-55) 5140-2629
Fax: (011-52-55) 5566-1111
E-mail: alicia.herrera@mail.doc.gov

## Travel & Tourism Services

### Overview

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MEXICAN ARRIVALS TO THE U.S (in millions)

| YEAR | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|
| Total Arrivals | 11,906 | 12,858 | 14,063 |
| % Change | 13% | 8% | 9% |
| Air arrivals | 1,494 | 1,668 | N/A |
| % Change | 10% | 12% | N/A |

Source: U.S. Department of Commerce, ITA, Office of Travel and Tourism Industries; Bureau of Economic Analysis.
Note: N/A – Not available data.

MEXICAN ARRIVALS TO THE U.S. VIA AIR -- TRENDS IN RECEIPTS (USD millions)

| YEAR | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|
| Receipts | $6,257 | $7,200 | N/A |
| % Change | 3% | 11% | N/A |

Source: U.S. Department of Commerce, ITA, Office of Travel and Tourism Industries; Bureau of Economic Analysis.
Note: N/A – Not available data.

The United States is the most important destination for Mexican travelers. In 2005, more than 12.8 million Mexicans traveled to the United States, representing 26% of the total foreign arrivals to the country. Mexico is the second source of international travelers to the United States just after Canada. Additionally, travel to the U.S. interior grew by 15% to register 4,605,268 arrivals. The solid growth ranked Mexican travel to the U.S. interior larger than the number one overseas visitor market - the United Kingdom (4,344,957 arrivals). This is good news for U.S. destinations and tourism services. U.S. companies need to market themselves aggressively in Mexico to tap into this lucrative market.

Importantly, in 2005 spending by Mexican travelers totaled $8.5 billion, with almost $7.2 billion (84% of this amount) spent by air travelers. This figure shows the economic importance of Mexican air travelers. U.S. travel and tourism companies should consider this in their efforts to prepare marketing strategies and promotional packages to potential Mexican tourists.

### Best Products/Services

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It is important to differentiate between land and air Mexican travelers to the United States. Mexican land tourists usually travel to the southern states for a short time period in order to visit relatives or friends and do shopping. On the other hand, air travelers do visit family but also make pleasure trips. These tourists are particularly lucrative since they are the ones who generate most of the travel and tourism receipts to the United States. Air travelers usually stay longer and buy packages that include transportation, lodging, shopping, and recreational activities.

In 2005, of all U.S. regions, the Pacific and South Atlantic maintained the largest market shares for Mexican travelers to the United States. Within these regions, California remained the most frequently visited state with 29.7% of the market. Nevertheless, the most popular cities, Los Angeles (no data for 2005), New York (11.5%), and Miami (9.7%) are distributed among 3 states.

## Opportunities

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Mexicans are drawn to the United States because of its destination diversity, infrastructure and excellent travel and tourism services. In particular, Mexicans enjoy destinations that offer shopping, gambling, entertainment, amusement parks and a cosmopolitan environment. Natural parks and other outdoor destinations are typically not as attractive for Mexicans. Skiing is the notable exception – Mexicans flock to resorts in Colorado and New Mexico in the winter months to ski.

Wholesale operators continue to be the most important distribution channel in the Mexican travel and tourism market. Wholesalers sell their packages to the travel agents who provide their services to the end consumers. Mexicans prefer to make their traveling arrangements through a travel agent, since they are not confident about providing their credit card information through the Internet.

It is crucial to establish and maintain a personal relationship with the travel and tourism companies contacted in Mexico. U.S. travel and tourism companies must undertake frequent trips to Mexico and establish a comprehensive follow-up strategy to obtain sufficient exposure in the Mexican market and increase sales. Handing out promotional material at one trade show is not likely to generate any results.

## Resources

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Some useful resources in this sector are:

Office of Travel and Tourism Industries: http://tinet.ita.doc.gov

Travel Industry Association of America (TIA): http://www.tia.org

Visit USA Committee Mexico: http://www.visitusa.com.mx

ExpoVacaciones USA Trade Show: http://www.expovacacionesusa.com

For more information on the travel and tourism sector in Mexico, please contact:

Juan Carlos Ruiz, Commercial Assistant
U.S. Commercial Service, U.S. Embassy Mexico City
Tel: (011-52-55) 5140-2654
Fax: (011-52-55) 5535-1139
Juancarlos.ruiz@mail.doc.gov

## Agricultural Sectors

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## Overview

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Mexico is the second largest market for U.S. agricultural products, behind only Canada. In 2005, U.S. agricultural exports to Mexico reached a record $9.4 billion and will surpass that figure in 2006 with export pace nearly 15 percent stronger through November 2006 than the same period the previous year. Since 1992, U.S. agricultural and food exports to Mexico have been climbing at an annual rate of almost 10 percent. The most important exports in terms of total sales have been coarse grains, red meats, and soybeans representing approximately 30 percent of total exports to Mexico. Cotton, wheat, poultry and dairy products are also strongly represented in the trade mix. Additional data is provided on a few key sectors below.

Red meat (beef & pork)
Poultry meat (chicken & poultry)
Fresh fruit (apples, pears, grapes)

Red meat (1000 Metric Tons)

| | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|
| Total Market Size 1/ | 3.924 | 3,970 | 4,090 |
| Total Local Production | 3,249 | 3,315 | 3,375 |
| Total Exports | 70 | 90 | 100 |
| Total Imports | 745 | 745 | 815 |

1/USDA/FAS Livestock and Poultry: World Markets and Trade

Mexico is the United States' primary market for beef and pork. Beef exports continue to increase to record levels after falling in 2004 due to the BSE finding in the US in December 2003. Pork exports to Mexico increased dramatically in 2004, and that growth continued into 2006.

Poultry meat (Chicken & Turkey) (1000 Metric Tons)

| | 2004 | 2004 | 2005 (estimated) |
|---|---|---|---|
| Total Market Size 1/ | 2,869 | 3,070 | 3,215 |
| Total Local Production | 2,402 | 2,510 | 2,625 |
| Total Exports | 1 | 1 | 0 |
| Total Imports | 470 | 559 | 590 |

1/USDA/FAS Livestock and Poultry: World Markets and Trade

The United States continues to be by far the largest supplier of chicken and turkey meat to Mexico. Main foreign competitor is Chilean whole turkeys for the Christmas season and boneless chicken breast. Except for the United States and Chile, Mexico has excluded the poultry sector from numerous free trade agreements signed with other countries.

Fresh fruit (apples, pears, grapes) (1000 Metric Tons)

| | 2004 | 2005 | 2006 (estimated) |
|---|---|---|---|
| Total Market Size 1/ | 808 | 890 | 997 |
| Total Local Production | 691 | 730 | 797 |
| Total Exports (grapes) | 122 | 190 | 150 |
| Total Imports | 333 | 349 | 350 |

1/ USDA/FAS World Markets and Trade

The United States exported over USD$350 million in fresh fruit to Mexico in 2005, with apples accounting for the lion's share. However, anti-dumping duties for Red and Golden Delicious varieties from the United States, which reach as high as 46.58 percent for some exporters, continue to impact the market.

## Best Prospects/Services

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U.S. consumer-ready product sales continued their climb to record levels, increasing 23 percent to $4.2 billion in 2005 with record sales across many product categories: red meats, poultry meat, dairy, fresh vegetables, processed meat and wine and beer. In addition, record sales were registered for intermediate products.

US EXPORTS OF CONSUMER READY AND INTERMEDIATE AGRICULTURAL PRODUCTS

(In Thousands of US Dollars; Calendar Year Information)

| Product | 2003 | 2004 | 2005 | Jan-Nov 05 | Jan-Nov 06 |
|---|---|---|---|---|---|
| Dairy Products | 251,385 | 387,263 | 507,454 | 468,160 | 400,899 |
| Poultry Meat | 259,536 | 330,652 | 451,599 | 410,069 | 417,004 |
| Snack Foods | 179,657 | 190,606 | 226,334 | 206,380 | 223,143 |
| Processed Fruits and Vegetables | 388,218 | 407,605 | 407,103 | 366,825 | 393,697 |
| Wine/beer | 57,299 | 66,006 | 75,249 | 70,021 | 77,272 |
| Red Meats (fresh/chilled/frozen) | 1,126,343 | 1,067,870 | 1,339,888 | 1,198,275 | 1,505,411 |
| Red Meats (prepared/preserved) | 157,087 | 91,624 | 97,108 | 87,238 | 97,993 |
| Rice | 140,398 | 182,823 | 165,435 | 151,508 | 186,150 |
| Soybean Meal | 150,812 | 216,477 | 321,219 | 292,343 | 346,653 |
| Wheat flour | 9,998 | 7,846 | 8,709 | 7,962 | 9,567 |
| Forest products | 396,817 | 458,614 | 513,272 | 467,805 | 561,219 |

*Indicates the percent growth shown in the first eleven months of 2006 as compared to the same period in 2004.

## Resources

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The USDA's Foreign Agricultural Service offices in Mexico – the Agricultural Trade Offices in Mexico City and Monterrey, respectively, and the Office of Agricultural Affairs at the US Embassy in Mexico City, publish more than 100 market reports annually. The reports can be accessed at:

www.fas.usda.gov/scriptsw/attacherep/default.asp

A sampling of useful reports from 2006 follows:

| Title | Number | Date |
|---|---|---|
| Grain & Feed Annual Report | MX5019 | March 8, 2006 |
| Sugar Annual Report | MX5029 | April 10, 2006 |
| Oilseeds & Products Annual | MX6028 | April 13, 2006 |
| Food and Agriculture Import Regulations and Standards | MX6059 | July 27, 2006 |
| Livestock & Products Annual | MX6088 | August 31, 2006 |
| Exporter Guide | MX6311 | October 3, 2006 |
| Solid Wood Products Marketing Annual | MX6089 | October 31, 2006 |
| Dairy Annual | MX6092 | November 1, 2006 |

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# Chapter 5: Trade Regulations and Standards



## Import Tariffs

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Under the terms of the NAFTA, Mexico eliminated tariffs on all remaining industrial and most agricultural products imported from the United States on January 1, 2003. Remaining tariffs and non-tariff restrictions on corn, sugar, milk powder, orange juice, and dried beans will be phased out on January 1, 2008. Mexico's average duty on U.S. goods has fallen from 10 percent prior to the NAFTA to less than 0.1 percent today. Some examples of items still subject to tariff treatment are:

| HS Code | Description | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| 0402.10.01 | Milk powdered or tableted | 23.5% | 11.8% | 0% |
| 0402.21.01 | Milk powdered or tableted | 23.5% | 11.8% | 0% |
| 0713.33.02 | White beans, except 0713.33.01 | 23.5% | 11.8% | 0% |
| 0713.33.03 | Black beans, except 0713.33.01. | 23.5% | 11.8% | 0% |
| 0713.33.99 | Beans not elsewhere specified or included | 23.5% | 11.8% | 0% |
| 1005.90.03 | Yellow corn | 36.3% | 18.2% | 0% |
| 1005.90.04 | White corn (for four) | 36.3% | 18.2% | 0% |
| 1005.90.99 | Corn not elsewhere specified or included | 36.3% | 18.2% | 0% |
| 1604.14.01 | Tuna (genus "*Thunus*"), except 1604.14.02. | 2.6% | 1.3% | 0% |
| 1604.14.02 | Tuna filets (genus "*Thunus*"). | 2.6% | 1.3% | 0% |
| 1604.14.03 | Tuna filets (genus "*Euthynnus*" variety "*Katsowonus pelamis*". | 2.6% | 1.3% | 0% |
| 1604.14.99 | Tuna not elsewhere specified or included | 2.6% | 1.3% | 0% |
| 2009.11.01 | Frozen orange juice | 3.14 ¢/lt | 1.57 ¢/lt | 0% |
| 2009.12.01 | Non-frozen orange juice with concentration smaller than or equal to 1.5 | 0.70 ¢/lt | 0.35 ¢/lt | 0% |

| | | | | |
|---|---|---|---|---|
| 2009.12.99 | Non-frozen orange juice not elsewhere specified or included | 1.23 ¢/lt | 0.61 ¢/lt | 0% |
| 2009.19.01 | Orange juice with concentration smaller than or equal to 1.5 | 0.70 ¢/lt | 0.35 ¢/lt | 0% |
| 2009.19.99 | Orange juice not elsewhere specified or included | 1.23 ¢/lt | 0.61 ¢/lt | 0% |

A number of U.S. exports are subject to antidumping duties that limit access to the Mexican market. Products subject to these duties currently include beef, apples, expoxidated soy oil, liquid caustic soda, hydrogen peroxide, monoethylene glycol mono butyl ether, ammonium sulfate, stearic acid, partially hydrogenated fatty acid, polyvinyl chloride, bond paper, and welded carbon steel pipe. As part of an agreement with the United States, Mexico also placed safeguards on poultry leg quarters in July of 2003. The United States exempted Mexico from the recently ended safeguard action on steel.

Mexico also has implemented what are called “Sectoral Promotion Programs (PROSEC)” which reduce MFN tariffs to 0 or 5 percent on a wide range of important inputs needed by Mexico’s export manufacturing sector. This program includes some 20 different industry sectors and affects 16,000 tariff line items. Mexican companies must be registered under this program to participate, and it can be difficult to qualify.

Under the NAFTA, the import duty is calculated on the U.S. plant value of the product(s) (invoice), plus the inland U.S. freight charges to the border, and any other costs listed separately on the invoice and paid by the importer, such as export packing. All NAFTA-compliant products imported definitively into Mexico no longer need to pay the customs processing fee (CPF). Products temporarily imported for processing and re-export may be subject to the CPF since the imports are not considered “definitive.”

Mexico has, in addition, a value-added tax (IVA) on most sales transactions, including sales of foreign products. The IVA is 10 percent for products staying in the Mexican border region and 15 percent for products that enter the interior of Mexico. Basic products such as food and drugs (but not processed foods) are exempt from the IVA.

A special tax on production and services (IEPS) is assessed to the importation of alcoholic beverages, cigarettes, cigars, and non-alcoholic beverages with a sweetener other than cane sugar, among others. This tax may vary from 20 to 110 percent depending on the product.

Where an "arms length" transaction does not exist between seller and importer, such as intra-company sales or transfers, Mexico applies valuation rules that are compatible with the Brussels Customs Valuation Code. Goods for which the NAFTA preferential tariff treatment is not requested are valued on a C.I.F. basis.

## Trade Barriers Return to top

Under the NAFTA, there are virtually no tariff barriers for U.S. exports to Mexico.

U.S. companies do, however, face certain non-tariff barriers when exporting to Mexico. In November 1992, Mexico published a list of goods (with several subsequent updates and expansions -- the latest was released on February 8, 2006) previously susceptible to fraudulent customs under-valuation and established a "minimum estimated price" for such goods. This minimum estimated price is also referred to as a “reference price.” Importers of some 200 subject goods (including categories of liquor, apparel, chemicals, footwear, steel, hand tools, appliances, plywood, apples, rice, and poultry, among others) must post a guarantee representing any difference in duties and taxes if the declared customs value is less than the established reference price. This guarantee usually is in the form of a cash deposit, trust, or line of credit established with an authorized bank (Bancomer, Banamex, or HSBC), which charges high fees to open, manage, and close the accounts. Mexican government authorities then have up to six months to decide whether to start a formal investigation or to release the guarantee. U.S. exporters may expedite this review by providing an invoice certified by their local chamber of commerce. Exemptions from this regulation exist for active or highly capitalized importers. This policy is to be eliminated in the near future under a data-sharing agreement between the U.S. and Mexican Customs.

Certain sensitive products must obtain an import license for which the difficulty varies according to the nature of the product. Periodically, the Mexican government publishes lists that identify the different items that have a specific import control. Items are identified according to their Harmonized System (HS) code number; therefore, it is important the U.S. exporters have their products correctly classified. U.S. exporters are encouraged to check with customs brokers as to the accurate classification of their products.

The following are examples of import licenses required and the Mexican government agencies that administer the particular licenses. Note that this is not a complete list.

- The Secretariat of Economy requires import licenses for weapons and ammunition, used goods, and refurbished equipment, among others.
- The Secretariat of Agriculture (SAGARPA) requires prior import authorization for some leather and fur products, fresh/chilled and frozen meat, and agricultural machinery among others.
- The Secretariat of Health (SSA) requires either an “advance sanitary import authorization” or “notification of sanitary import" for medical products and equipment, pharmaceuticals, diagnostic products, toiletries, processed food, and certain chemicals. Food supplements and herbal products are highly regulated in Mexico, unlike in the United States. In some cases only pharmaceutical-like companies may be eligible to import them.
- The Secretariat of the Environment (SEMARNAT) requires import authorizations for products made from endangered species such as eggs, ivory, certain types of wood, furs, etc.
- Toxic and hazardous products have to comply with import authorization from an interagency commission called CICOPLAFEST which has representation from the four agencies mentioned above. This list includes a large number of organic and inorganic chemicals.

Commercial samples of controlled products shipped by courier are also subject to these regulations. Some special treatment may apply in the case of samples intended for research, product registration or certification. Unless returned at the sender's expense, Customs often confiscates or destroys samples lacking the proper documentation.

## Import Requirements and Documentation Return to top

For tax purposes, all Mexican importers must apply and be listed on the “Padrón de Importadores” maintained by the Secretariat of Finance and Public Credit (Hacienda). In addition, Hacienda maintains special sectoral registries. To be eligible to import more than 400 different items, including agricultural products, textiles, chemicals, electronics, and auto parts, Mexican importers must apply to Hacienda to be listed on these special industry sector registries. Infrequently, U.S. exporters have encountered problems when products are added to the list without notice or importers are summarily dropped from the registry without prior notice or subsequent explanation.

The basic Mexican import document is the "pedimiento de importación." This document must be accompanied by a commercial invoice (in Spanish), a bill of lading, documents demonstrating guarantee of payment of additional duties for undervalued goods (see "Customs Valuation") if applicable, and documents demonstrating compliance with Mexican product safety and performance regulations (see "Standards"), if applicable. The import documentation may be prepared and submitted by a licensed Mexican customs house broker or by an importer with sufficient experience in completing the documents.

Products qualifying as North American must use the NAFTA Certificate of Origin in order to receive preferential treatment. This must be issued by the exporter and does not have to be validated or formalized.

Unless the importer is accredited to act as Mexican customs broker, the participation of a professional customs broker is necessary to ensure compliance with Mexico's customs regulations. Mexican customs law is very strict regarding proper submission and preparation of customs documentation. Errors in paperwork can result in fines and even confiscation of merchandise as contraband. Exporters are advised to ensure that Mexican clients employ competent, reputable Mexican importers or customs house brokers. Because customs brokers are subject to sanctions if they violate customs laws, some have been very restrictive in their interpretation of Mexican regulations and standards.

## U.S. Export Controls Return to top

Mexico is not subject to any special U.S. export control regulations, and is designated as a Category I country (the least restrictive) for receipt of U.S. high technology products.

## Temporary Entry Return to top

Temporary imports for manufacturing, transformation, and repair under the Maquila and Pitex programs are subject to payment of duties taxes and compensatory fees. Other temporary imports from the United States, however, do not pay import duties, taxes or compensatory fees, but they must comply with all other obligations set forth in Article 104 of the Mexican Customs Law. There are different types of temporary imports into Mexico, including:

a) Temporary imports to be returned in the same condition;
b) Instruments of foreign artists;

c) Temporary imports for cultural and sporting events;
d) Temporary imports for conventions, congresses and trade shows; and
e) Temporary imports for the press, journalism, and cinematography.

The procedures for category (a) are as follows: Category (a) applies to temporary imports that remain in Mexico for a limited time and with a specific purpose and are returned to the U.S. in the same condition and within the time limits established in the Law (Art. 106). Such is the case of demonstration equipment that is temporarily imported into Mexico for exhibitions or sales visits. In such cases, U.S. representatives do not need to contract the services of a Mexican customs broker, and may themselves do the declaration of the products to Mexican Customs, using the declaration lane at the time of entry. Overlooking this requirement may result in the confiscation of the products without possibility of recovery, unless a high penalty fee is paid to the Mexican Government. Temporary imports may remain in Mexico for up to six months.

The import is processed under a temporary importation form and there are basic requirements to obtain the clearance from Customs, including:

1. A list of the products for temporary importation into Mexico;
2. A letter from the U.S. company stating that the product(s) is for temporary entry into Mexico and that it will not be sold;
3. A letter from the Mexican partner or company indicating that they take full responsibility for ensuring that the products are returned to the United States within the period allowed. The letter should also indicate that there is a business relationship between the Mexican party and the importer;
4. Preparation of a Temporary Customs Entry form (Pedimento de Importación Temporal);
5. A fee of US$15.00 or its equivalent in Mexico's currency must be paid in cash to Mexican Customs; and
6. The list of the products to be temporarily imported into Mexico must also be presented to U.S. Customs before the equipment enters Mexico in order to facilitate the duty free return to the U.S.

For temporary imports related to the manufacture, transformation, or repair under the Maquila and Pitex programs, exporters should obtain expert advice from a Mexican customs broker or other consultant with expertise in this area. More detailed information on this and the other categories of temporary imports may be obtained from the Industry Sector Analysis report, "Customs Procedures for Exporting to Mexico (March 2002)" available from the internet on www.buyusa.com, or by contacting the U.S. Commercial Service office in Tijuana (see contact list in Chapter 9).

## Labeling and Marking Requirements

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All products intended for retail sale in Mexico must bear a label in Spanish prior to their importation to Mexico. Products that must comply with commercial and commercial/sanitary information NOM's must follow the guidelines as specified in the applicable NOM.

For more detailed information see the "Labeling and Marking" in the Standards section below.

## Prohibited and Restricted Imports

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Import and/or export of the following products is prohibited in Mexico:

- Live predator fish
- Totoaba, fresh or cooled (fish)
- Totoaba frozen (fish)
- Turtle eggs of any sort
- Opium poppy seeds
- Opium poppy seeds oatmeal
- Marijuana (Cannabis Indica) seeds or spores whether or not mixed with other seeds
- Marijuana (Cannabis Indica)
- Opium juice, extracts, and smoking preparations
- Extracts and juice from marijuana (Cannabis Indica)
- Thickeners made from marijuana (Cannabis Indica)
- Thallium sulfate
- Insecticide (Isodrin or Aldrin)
- Insecticide (Heptachlorine or Drinox)
- Insecticide (Endrin or Mendrin or Nendrin or Hexadrin)
- N-ftalilglutamic acid imidine (Thalidomide)
- Insecticide (Leptophos)
- Heroin, base of Diacetylmorphine chlorhydrate
- Medicinal preparations made from marijuana (Cannabis Indica)
- Medicinal preparations made from acetyl morphine or its salts or derivatives
- Turtle skins
- Pre packed decals in color or black and white formats whether or not containing
- candies or chewing gum that include drawings, figures, illustrations that denigrate children or incite to violence or self-destruction or other anti-social behavior, known as “Garbage Pail Kids,” for example, printed by any trading company.
- In the case of medical devices and health care products, besides complying with
- standards, foreign manufactured products need to have a legally appointed representative/distributor in Mexico and be registered with the Secretariat of Health
- (SSA), prior to being sold in Mexico. With the exception of blood, blood derivate products and organs, almost all medical products can be imported into Mexico, if they comply with regulations.

## Customs Regulations and Contact Information

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U.S. exporters continue to be concerned about Mexican customs administration procedures, including insufficient prior notification of procedural changes, inconsistent interpretation of regulatory requirements at different border posts, and uneven enforcement of Mexican standards and labeling rules. There have been relatively few specific complaints, however, and Mexican Customs has been putting procedures in place to address issues of non-uniformity at border ports of entry. Agricultural exporters note that Mexican inspection and clearance procedures for some agricultural goods are long, burdensome, non-transparent and unreliable. Customs procedures for express packages continue to be burdensome, though Mexico has raised the de minimis level to fifty dollars from one dollar. However, Mexican regulation still holds the courier 100 percent liable for the contents of shipments.

Contact Information:

Servicio de Administración Tributaria
Representation Office
Embassy of Mexico
1911 Pennsylvania Ave. NW
Washington DC 20006
Tel. (202) 728-1621
Fax. (202) 728-1664

Administración General de Aduanas
(General Customs Administration)
Av. Hidalgo 77, Módulo IV, Piso 3, Col. Guerrero,
Deleg. Cuauhtémoc, 06300, México, D.F.
(011-52-55) 5802-3436
(011-52-55) 5802-3437
(011-52-55) 5802-3439
www.aduanas.gob.mx

## Standards Return to top



### Overview Return to top

Traditionally, the Government of Mexico (GOM) had been the primary actor in determining product standards, labeling and certification policy, with little input from the private sector and less from consumers. As a result, independent standards and certification organizations like those in the United States were virtually non-existent in Mexico. In 1992, the Ministry of Economy (SE-Secretaria de Economía) initiated efforts to reverse this situation, shifting the responsibility for the formulation of voluntary standards to the private sector or to mixed commissions.

In 1992, the Mexican Government undertook an ambitious project to revamp its entire system for formulating product standards, testing, and labeling and certification regulations. The cornerstone of this review is the Federal Law of Standardization and Metrology (Ley Federal de Metrología y Normalización-LFMN) enacted on January 26, 1988 and updated in 1992, which provided for greater transparency and access by the public and interested parties to the standards development process, and has resulted in a reduction of obligatory product standards. This process is not without its problems, but the Mexican Government has been receptive to U.S. concerns and willing to resolve problems.

SE (Ministry of Economy), through its General Bureau of Standards (DGN – Dirección General de Normas), is the organization with the authority to manage and to coordinate the standardization activities in the country. Its authority derives from the LFMN. The implementing regulations (Reglamento de la Ley Federal sobre Metrología y Normalización) were published in the Official Gazette (Diario Oficial, DOF) on January 14, 1999. In accordance with the Federal Law, the Law of Metrology and Standardization and its Regulation (Reglamento de la Ley Federal sobre Metrología y Normalización), the National Program of Standardization (Programa Nacional de Normalización, PNN), published annually in the Diario Oficial (DOF), which is the official document used to plan, inform and coordinate the standardization activities, both public and private, carried out by the Mexican Government.

Finally, two definitions are important to keep in mind:

1. NOMs – Mexican Official Standards – these are technical regulations, including labeling requirements, issued by government agencies and ministries. Compliance is mandatory.

2. NMX – Mexican "Voluntary" Standards – these are voluntary standards issued by recognized national standard making bodies. Compliance is mandatory only when a claim is made that a product meets the NMX, when a NOM specifies compliance, and whenever applicable in government procurement.

## Standards Organizations Return to top

In addition to the General Bureau of Standards (DGN) of the Ministry of Economy, organizations that develop NOMs – Mexican Official Standards include:

- ECONOMIA (Commerce)
- SAGARPA (Agriculture)
- STPS (Labor)
- SCT (Communications & Transportation)
- SECTUR (Tourism)
- SEDESOL (Social Development)
- SEMARNAT (Environment)
- SENER (Energy)

The DGN – Dirección General de Normas publishes the National Standardization Plan (PNN – Plan Nacional de Normalización) twice a year. It is available on the DGN website. Contact information is listed at the end of this chapter.

Organizations that develop NMX – Mexican "Voluntary" Standards include:

- ANCE (Electrical)
- IMNC (Quality Systems)
- INNTEX (Textiles)
- ONNCCE (Construction)
- NORMEX (Food Products and Quality Systems)
- NYCE (Electronics)

**NIST Notify U.S. Service**
Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: http://www.nist.gov/notifyus/

## Conformity Assessment Return to top

Under the NAFTA, Mexico was required, starting January 1, 1998, to recognize conformity assessment bodies in the United States and Canada on terms no less favorable than those applied in Mexico. To date, no U.S. certification bodies have been recognized by Mexico.

Based on agreements with other agencies, as well as with other certification organizations, the General Bureau of Standards (DGN) of the Ministry of Economy has set the procedures for the certification of products to the Official Mexican Standards (NOMs) or Mexican Standards (NMXs).

Conformity Assessment procedures issued by the SE/DGN tend to be more fully developed and cover a significantly greater range of NOMs than those of other ministries who develop NOMs.

## Product Certification Return to top

For the purposes of the certification procedure, the following definitions are issued:

Product Certification: Proof of compliance with the applicable Mexican standard. An accredited certification body must issue these certificates.

DGN: General Bureau of Standards, Ministry of Economy (SE). This agency authorizes the operation of certification and calibration laboratories and verification units, according to the Federal Law of Standardization and Metrology.

Accredited Laboratory: Institutions authorized to test or calibrate products subject to Mexican standards.

Accredited Unit for Sampling Verification: Authorized Unit for product sampling verification.

NOM: Mexican Official Standard (mandatory)

NMX: Mexican Standard (voluntary)

Product Certification Organization: Product Certification Organization accredited by DGN through EMA (Entidad Mexicana de Acreditación – Mexican Accreditation Agency)

Quality System Certification Organization: Organization accredited by DGN through EMA to certify Quality Assurance Systems.

MRAs (mutual recognition agreements)

There is a significant number of MRAs (mutual recognition agreements) between Mexican and U.S. organizations. However, at present, none of these agreements exempt U.S. products from complying with all applicable Mexican technical regulations and product certification requirements. Key examples of these include:

FMVSS - DGN
(Federal Motor Vehicle Safety Standard - Mexican Standards Bureau)
Recognition of testing on new pneumatic tires for other than passenger cars

UL - CANIETI
(Underwriters Laboratories - Mexican Chamber of the Electronic, Telecommunications, and Information Industry)
Recognition of testing on electronic appliances
Recognition of testing on copying, fax, and other office machines
Recognition of testing on data processing and networking equipment

UL - NYCE
(Underwriters Laboratories - Normalización y Certificación Electrónica)
Recognition of testing on data processing and networking equipment
Recognition of testing on electric appliances
Recognition of testing on electronic office equipment
Recognition of testing on data processing equipment
Verification unit for electronic products

UL - ANCE
(Underwriters Laboratories - Asociación de Normalización y Certificación)
Recognition of testing on electric appliances
Recognition of testing on electronic office equipment
Recognition of testing on data processing equipment
Recognition of testing on electric ballasts
Recognition of testing on lamps whether or not for indoor use

NIST - CENAM
(National Institute of Standards and Technology - Mexican Metrology Center)
Recognition of measuring capacities including those related to national patterns, calibration certification and reference material

More detailed information regarding the conformity assessment, product certification procedures and MRAs (mutual recognition agreements in Mexico are available upon request from the Standards Attaché at CS Mexico City. See Contacts – at the end of this section).

## Accreditation Return to top

In 1999, the Mexican government authorized the first private organization to accredit conformity assessment bodies (calibration laboratories, certification bodies, test laboratories, and verification/inspection units). This private non-profit institution is the EMA (Entidad Mexicana de Acreditación - Mexican Accreditation Entity).

**Calibration Laboratories:**

Calibration laboratories are responsible for transferring the precision of reference standards to the measurement instruments used in the commercial and industrial sectors. The calibration laboratories can be sponsored by public or private organizations, including universities, professional associations and private companies. Individuals interested in performing calibration activities can obtain certification after meeting the certification requirements set by law.

Committees, made up of technicians and specialists in metrology, evaluate applications for certification as calibration laboratories. These committees make recommendations to the DGN for final decisions on certification. The committees also establish the technical specifications for the evaluation of calibration laboratories, set the precision requirements for the calibration chains and set the methods for comparison of standards.

**Certification Bodies:**

The EMA has accredited several organizations for certifying compliance in different specific fields. These organizations include:

ANCE – Asociación de Normalización y Certificación (product certification body for the electric sector NOMs)

CALMECAC - Calidad Mexicana Certificada, A.C. (Certified Mexican Quality).

CNCP - Centro Nacional Para la Calidad del Plástico (Mexican Center for the Quality of Plastic).

CRT - Consejo Regulador Del Tequila (Tequila Regulation Council).

IMNC - Instituto Mexicano De Normalización y Certificación, A.C. (Mexican Institute of Standardization and Certification).

INNTEX - Instituto Nacional De Normalización Textil, A.C. (Mexican Institute of Textile Standardization).

NORMEX - Sociedad Mexicana de Normalización y Certificación, S.C. (Mexican Society of Standardization and Certification).

NYCE - Normalización y Certificación Electrónica (Electronic Standardization and Certification).

ONNCCE - Organismo de Normalización y Certificación de la Construcción y Edificación (Building and Construction Standardization and Certification Body)

The DGN procedures currently in effect are those published on June 14, 1994. However, the procedures reflect current practices, except where noted as "not implemented." A list of products by tariff number that must comply with an NOM was published on December 25, 1995, and updated on June 28, 1996, in the Diario Oficial.

To date, Mexico has not recognized a single conformity body in the United States. This failure remains a topic of discussion between the U.S. and Mexican Governments.

**Test Laboratories:**

Test laboratories are responsible for certifying that products meet Mexican standards and are normally commercial entities that make a profit from the testing of samples. The DGN through EMA is responsible for granting authorizations to test laboratories after receiving the recommendations of the Test Laboratory Evaluating Committees (Comités de Evaluación de Laboratorios de Pruebas).

Each committee oversees a group of evaluators who visit the test laboratories, review their organization, capabilities, staffs, etc. Test laboratories must fully comply with standard NMX-CC-13-1992 and Standard NMX-CC-14-1992, which set the procedures for approval of test laboratories. Once the evaluators have made their review, they submit a report to the committee. Then, the committee writes its recommendations to the DGN, which, in turn, informs the laboratory of the results. Those applicants not receiving authorization are permitted to make the necessary modifications to their facilities in order to comply with standards NMX-CC-13-1992 and NMX-CC-14-1992. After the committee verifies that the laboratory meets the requirements, a second report is prepared for the DGN.

Authorizations as Test Laboratories are valid for two years and can be renewed upon written request. Test laboratories are required to maintain their technical capabilities and to make any modifications that the committee may set. Test laboratories must notify the DGN of any change in equipment, location, and administration. Laboratories have the option to withdraw their certification.

**Verification Units:**

Verification or inspection units check and provide a report or proof of compliance corroborating either visually or by sampling, measuring, testing in laboratories, or examining documents. Labeling NOMs, for example, do not require products to obtain a certificate of compliance; however, verification units can determine whether or not a technical regulation has been correctly applied.

On June 18, 2001, the Mexican standard NMX-EC-17020-IMNC-2000 (equivalent to ISO/IEC 17020:1998) entered into force in order to make the accreditation process of verification units consistent with the international standards. Therefore, as of January 2002, the procedure to evaluate and accredit verification units became effective.

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National Gazette:

The Mexican national gazette is the Diario Oficial de la Federación (DOF).

**Publication of Proposed Technical Regulations:**

In accordance with the Regulation of the Federal Law of Metrology and Standardization (Reglamento de la Ley Federal sobre Metrología y Normalización, LFMN), the National

Program of Standardization (Programa Nacional de Normalización, PNN) is the official document used to plan, inform and coordinate the standardization activities, both public and private, carried out by the Mexican government. The PNN is made up of a list of topics that will be developed into Official Mexican Standards (NOMs), technical regulations, Mexican Standards (NMX's), and Reference Standards (NRF's)--as well as approximate a working calendar for each respective topic. The program is equally composed of information from the 22 National Consulting Standardization Committees (Comités Consultivos Nacionales de Normalización) which are responsible for the creation of NOMs; the 35 Technical Committees of National Standardization (Comités Técnicos de Normalización Nacional) and 7 National Standardization Bodies (Organismos Nacionales de Normalización), both of which are responsible for the creation of NMX; and 2 Standardization Committees (Comités de Normalización), responsible for the creation of NRF's—standards created by governmental entities for the government's procurement.

The PNN is annually integrated by the Technical Secretariat of the National Standardization Commission, revised by the Technical Council of the aforementioned entity, and approved by the National Standardization Commission (CNN, Comisión Nacional de Normalización) in its first meeting of every year.

The LFMN and its Regulation establish a time frame for each step of the NOM-making process (development, draft publication in the Official Gazette (DOF), and publication of modified and definitive technical regulations and standards) and within the PNN framework, the accomplishment of these tasks is limited to the span of a year. The actual NOM-making period, however, is contingent upon various factors, including the complexity of the topic and the uncertain period between each step (i.e. publishing period in the Official Gazette (DOF)—draft, response, comments, and final technical regulation and standard). Therefore, evaluations conducted on the PNN indicate, more often than not, that the standardization process requires more than a year in order to adequately comply with its objectives.

U.S. entities can participate in the process in several ways. They can:

- Review the PNN with the objective of learning about the topics to be standardized.
- Request to be included in the applicable working group directly from the appropriate office (requires physical presence).
- Present commentaries during the 60-day public consultation period.
- Solicit the making, modification, or cancellation of technical regulations and standards (NOM and NMX) to the appropriate government office or to a National Standardization Body.

**Labeling and Marking** Return to top

All products intended for retail sale in Mexico must bear a label in Spanish prior to their importation to Mexico. Products that must comply with commercial and commercial/sanitary information NOMs must follow the guidelines as specified in the applicable NOM. Most NOMs require commercial information to be affixed, adhered, sewn, or tagged onto the product, with at least the following information in Spanish:

- Name or business name and address of the importer,

- Name or business name of the exporter,
- Trademark or commercial name brand of the product,
- Net contents (as specified in NOM-030-SCFI-2006 DOF November 4, 2006),
- Use, handling, and care instructions for the product as required,
- Warnings or precautions on hazardous products.

This information must be presented attached to the product, packaging or container depending on the product characteristics. This information must be on products as prepared for retail sale. Listing this information on container in which a good is packed for shipment will not satisfy the labeling requirement.

NOMs do not explicitly state that country of origin is required on the label prior to importation. However, Mexican fiscal regulations do require country of origin designation, and the U.S. Department of Commerce recommends that exporters include this information, in Spanish, on the labels they are preparing for goods destined for retail sale in the Mexican market. Along this line, including the importer's taxpayer number (commonly known as RFC) is recommended.

The commercial and commercial-sanitary NOMs currently in force are:

NOM-003-SSA1-1993, Environmental health - Sanitary requirements with which paints, inks, varnishes, lacquers, and enamels must comply, published in the DOF on August 12, 1994.

NOM-004SCFI-2006, Commercial Information - Labeling of textile products, garments and accessories, published in the Diario Oficial de la Federación (DOF) onJune 21, 2006.

NOM-015-SCFI-1998, Commercial Information - Labeling of toys, published in the DOF on March 5, 1999.

NOM-020-SCFI-1997, Commercial Information - Labeling of leather and leather-like goods, shoes and accessories published in the DOF on April 27, 1998.

NOM-024-SCFI-1998, Commercial Information for packaging, instructions, and warranties of electric and electronic products and appliances, published in the DOF on January 15, 1999.

NOM-050-SCFI-2004, Commercial information- General labeling of products, published in the DOF on June 1, 2004.

NOM-051-SCFI-1994, General labeling specifications for pre packed food products and non-alcoholic beverages, published in the DOF on January 24, 1996.

NOM-055-SCFI-1994, Commercial Information - Fire retardants or inhibitors - published in the DOF on December 8, 1994.

NOM-084-SCFI-1994, Commercial Information - Commercial and sanitary information specifications for pre packed tuna and bonito food products, published in the DOF on September 22, 1995.

NOM-116-SCFI-1997, Automotive industry - Commercial information of lubricant oils for gasoline or diesel engines, published in the DOF on May 4, 1998

NOM-120-SCFI-1996, Commercial Information - Labeling of agricultural products - Grape, published in the DOF on November 22, 1996.

NOM-128-SCFI-1998, Commercial Information - Labeling of agricultural products - Avocado, published in the DOF on August 31, 1998.

NOM-129-SCFI-1998, Commercial Information - Labeling of agricultural products - Mango, published in the DOF on August 31, 1998.

NOM-139-SCFI-1999, Commercial Information - Labeling of vanilla extract, derivatives and substitutes, published in the DOF on March 22, 2000.

NOM-141-SSA1-1995, Goods and services - Labeling of pre packed perfumery and beauty products, published in the DOF on July 18, 1997.

NOM-142-SSA1-1995, Goods and services. Alcoholic beverages. Sanitary specifications. Sanitary and commercial labeling published in the DOF on July 9, 1997.

## Contacts Return to top

The following is key contact information for the most relevant organizations in both the public and private sectors. For additional organizations, please contact the post.

**Mexican Public Sector**:

SE-Secretaria de Economía (Ministry of Economy)

A. DGN-Dirección General de Normas
(General Bureau of Standards)
AV. Puente de Tecamachalco No. 6
Col. Tecamachalco
Naucalpan, Edo. De México
53950 México

Dr. Jose Rodrigo Roque Diaz, Director General
Tel. (011-52-55) 5729-9300 Ext. 43200
Fax. (011-52-55) 5729-9484

Rodolfo Consuegra Gamon, Director of Standardization
Tel. (011-52-55) 5729-9300 Ext. 43222
Fax. (011-52-55) 5520-9715

Luis Fernando Vazquez, Conformity Assessment Director
Tel. (011-52-55) 5729-9300 Exts. 43213
Fax. (011-52-55) 5520-9715

Carlos Berzunza Sanchez, Director of International Standardization

Tel. (011-52-55) 5729-9300 Ext 43216
Fax. (011-52-55) 5520-9715

Danielle Schont Avenel, Promotion Director (Inquiry Point)
Tel. (011-52-55) 5729-9300 Ext. 43243
Fax. (011-52-55) 5520-9715

B. Undersecretariat of International Trade Negotiations
Alfonso Reyes No. 30, Piso 18
Col. Hipódromo Condesa
06140 México, D.F.

Kenneth Smith Ramos, Director General for International Trade Negotiations
International Trade Negotiations
Tel. (011-52-55) 5729-9146/ 47
Fax. (011-52-55) 5729-9352

Juan Carlos Baker, Director for NAFTA, Technical Regulations and Standards
Tel (011-52-55) 5729-9122
Fax. (011-52-55) 5729-9352

SEMARNAT- Secretaria de Medio Ambiente y Recursos Naturales
Ing. Sandra Denisse Herrera Flores
Subecretaria de Fomento y Normatividad Ambiental
(Deputy Secretary for Development and Environmental Standards)
Blvd. Adolfo Ruiz Cortinez 4209
Piso 5, Ala A
Col. Fracc. Jardines de la Montana
14210 Mexico, D.F.
Tel. (011-5255) 56-280613
Fax. (011-5255)56-280656
E-mail: Sandra.Herrera@semarnat.gob.mx
URL: www.semarnat.gob.mx

SCT – Secretaria de Comunicaciones y Transportes
(Secretariat of Communications and Transport)
Lic. Manuel Arregui Rodriguez
Under Secretary of Transportation
Centro Nacional SCT
Av. Universidad y Xola s/n
Bldg.C, floor 1 - Ala Oriente
Col. Narvarte
03028 México, D.F.
Tel: (011-52-55) 5519-4468 / 5530-7390
Fax: (011-52-55) 5519-4871
E-mail: mrodarr@sct.gob.mx
URL: http://www.sct.gob.mx

**Mexican Private Sector:**

ANCE – Asociación de Normalización y Certificación del Sector Electrico, A.C.

(National Association for the Standards & Certification of the Electrical Sector)
Ing. Martin Flores Ruiz
Director of Operations
Av. Lazaro Cardenas No. 869,
Fracc. 3, esq. con Jupiter,
Col. Nueva Industrial Vallejo,
C.P. 07700, México, D.F.
Tel. (011-52-55) 5747-4550 x 4557
Fax (011-52-55) 5747-4560
E-mail: ance@ance.org.mx
URL: http://www.ance.org.mx
Standards area: electrical and gas

NYCE – Normalización y Certificación Electrónica, A.C.
(Electronic Standards & Certification)
Ing. Claudio Bortoluz Orlandi
President
Av. Lomas de Sotelo No. 1097
Col. Lomas de Sotelo
11200 México, D.F.
Tel. (011-52-55) 5395-0810 / 0860 / 0893 / 0983 / 0993
Fax (011-52-55) 5395-0700
E-mail: nyce@nyce.org.mx
URL: http://www.nyce.org.mx
Standards area: electronics, and rubber (tires)

INMC – Instituto Mexicano de Normalización y Certificación, A.C.
(Mexican Standards & Certification Institute)
Dra. Mercedes Irueste Alejandre
General Director
Manuel Ma. Contreras No. 133 Piso 6
Col. Cuauhtémoc
06500 México, D.F.
Tel. (011-52-55) 5535-5872 / 5566-4750
Fax (011-52-55) 5705-3686
E-mail: direccion@imnc.org.mx
E-mail: imnc@imnc.org.mx
URL. http://www.imnc.org.mx
Standards area: general and quality systems

NORMEX – Sociedad Mexicana de Normalización y Certificación, S.C.
(Mexican Standards & Certification Society)
Dr. Jaime Gonzalez Basurto
General Director
Cir. Geogratos 20
Col. Sat. OTE
53101 Naucalpan de Juarez, Edo. de México
Tel. (011-52-55) 5390-4152 (12 Lines) Office 5374-1402
Fax (011-52-55) 5374-2037
E-mail: normex@normex.com.mx
URL: http://www.normex.com.mx

Standards area: foods, beverages, packaging, packages, and quality systems

ONNCCE – Organismo Nacional de Normalización y Certificación de la Construcción y Edificación, S.C.
(National Body for the Standardization and Certification of Constructions and Buildings)
Arq. Franco Mauricio Bucio Mujica
Technical Director
Constitución No. 50
Col. Escandón
11800 México, D.F.
Tel. (011-52-55) 5273-3399 / 1991
Fax. (011-52-55) 5273-3431
E-mail: onncce@mail.onncce.org.mx
URL. http://www.onncce.org.mx
Standards area: construction

Post Standards Contacts

U.S. Embassy - U.S. Commercial Service
Louis Santamaria, Commercial Officer / Standards Attaché for Canada, Mexico, Central America, Caribbean
Liverpool 31, Col. Juarez
06600 Mexico, D.F., Mexico
Tel: (011) 52-55 - 5140-2603 + Fax: (011) 52-55 - 5566-1115
E-mail: Louis.Santamaria@mail.doc.gov
URL: http://www.BuyUSA.gov/mexico and http://www.export.gov

U.S. Embassy - U.S. Commercial Service
Jesus S. Gonzalez, Commercial Specialist
Liverpool 31, Col. Juarez
06600 Mexico, D.F., Mexico
Tel: (011) 52-55 5140-2627
Fax: (011) 52-55 5535-1139
E-mail: Jesus.Gonzalez@mail.doc.gov
URL: http://www.BuyUSA.gov/mexico and http://www.export.gov

U.S. Embassy – U.S. Department of Agriculture
Mr. Erich Kuss, Agricultural Attaché
Reforma 305
06500 Mexico, D.F., Mexico
Tel: (011) 52-55 5080-2514
E-mail: Erich.Kuss@usda.gov

## Trade Agreements Return to top

The most outstanding feature of the U.S.-Mexico bilateral relationship in the past decade has been the North American Free Trade Agreement (NAFTA), which created a free trade zone for Mexico, the United States, and Canada. Since the enactment of NAFTA in January 1994, Mexico's imports from the United States have grown exponentially, totaling over $120 billion in 2005. The U.S. share of Mexico's trade has likewise increased with NAFTA, accounting for nearly 75 percent of Mexico's total trade. U.S. exports to Mexico are greater than U.S. exports to the rest of Latin America combined.

NAFTA continues to boost trade between the three member countries and improve Mexico's overall economic standing. Since the enactment of NAFTA in January 1994, Mexico's exports have increased by over 220 percent, breaking a new record for total exports each year, except 2001 (a recession year). During the same period, Mexico's imports have grown by nearly 165 percent. The U.S. share of Mexico's trade has likewise increased with NAFTA.

Mexico is the country with the largest network of free trade agreements (FTA's) in the world. Including the most recent trade agreement negotiated with Japan, Mexico has FTA's with 43 countries (officially), including the European Union, European Free Trade Area, Israel, and 10 countries in Latin America. The agreement with the European Union was modeled after NAFTA and provides EU goods with rough NAFTA parity from 2003 onwards. Mexico is holding free trade discussions with additional Latin American and trading partners including Brazil, Argentina, and Panama. The significance of this for U.S. exporters is that many of our strongest international trade competitors enjoy duty free access to the Mexican market equivalent to that provided by NAFTA – or if they do not today, they might in the near future. Mexico's membership in the WTO, the APEC, the OECD, the Free Trade Area of the Americas (FTAA) negotiations, and its pursuit of bilateral investment treaties give further testimony to Mexico's commitment to economic liberalization.

## Web Resources Return to top

The following is key contact information for the most relevant organizations' websites in both the public and private sectors. For additional organizations, please contact CS Mexico.

**Mexican Public Sector:**

SE-Secretaria de Economia (Ministry of Economy)

A. DGN-Direccion General de Normas

–Importation requirements by HTS codes: http://www.economia-snci.gob.mx

–Text of NOMs, list of test laboratories, certification bodies and verification units: http://www.economia.gob.mx

B. Under secretariat of International Trade Negotiations

SAGARPA (Agriculture): http://www.sagarpa.gob.mx

SCT – Secretaria de Comunicaciones y Transportes: http://www.sct.gob.mx
–NOMs, regulations, and requirements for telecomm equipment: http://www.cofetel.gob.mx

SECTUR (Tourism): http://www.sectur.gob.mx

SEDESOL  (Social Development): http://www.sedesol.gob.mx

SEMARNAT – Secretaria de Medio Ambiente, Recursos Naturales:
http://www.semarnat.gob.mx

SENER (Energy) also SEDE: http://www.sener.gob.mx

SSA (Health)
–NOMs, regulations and more of the Ministry of Health: http://www.ssa.gob.mx

STPS  (Labor): http://www.stps.gob.mx

**Mexican Private Sector:**

ANCE – Asociación de Normalización y Certificación del Sector Electrico, A.C.
(National Association for the Standards & Certification of the Electrical Sector)
Standards area: electrical and gas: http://www.ance.org.mx

NYCE – Normalización y Certificación Electrónica, A.C.
(Electronic Standards & Certification)
Standards area: electronics, and rubber (tires): http://www.nyce.org.mx

INMC – Instituto Mexicano de Normalización y Certificación, A.C.
(Mexican Standards & Certification Institute)
Standards area: general and quality systems: http://www.imnc.org.mx

NORMEX – Sociedad Mexicana de Normalización y Certificación, S.C.
(Mexican Standards & Certification Society)
Standards area: foods, beverages, packaging, packages, and quality systems
http://www.normex.com.mx

ONNCCE – Organismo Nacional de Normalización y Certificación de la Construcción y Edificación, S.C.
(National Body for the Standardization and Certification of Constructions and Buildings)
Standards area: construction: http://www.onncce.org.mx

**U.S. Standards Bodies with Representation in Mexico:**

ASTM—American Society for Testing and Materials: http://www.astm.org
Intertek Testing Services de Mexico, S.A. de C.V.: http://www.intertek.com
NEMA— Electrical Equipment Standards: http://www.nema.org
NFPA—National Fire Protection Association: http://www.nfpa.org
UL— Underwriters Laboratories Inc.: http://www.ul.com

**Post Standards Contacts:**

U.S. Embassy - U.S. Commercial Service
http://www.BuyUSA.gov/mexico
http://www.export.gov

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# Chapter 6: Investment Climate



## Openness to Foreign Investment

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Mexico is open to foreign direct investment (FDI) in most economic sectors and has consistently been one of the largest recipients of FDI among emerging markets. In recent years, however, Mexico has become less competitive relative to other emerging economies, particularly China, but also India and countries in Eastern Europe, as it has failed to address serious crime and safety issues or pass much needed fiscal, labor and energy sector reforms. Recent reports from AT Kearney, Transparency International, the World Economic Forum and the Organization for Economic Cooperation and Development (OECD) have detailed the perceived decline in Mexico's attractiveness as an investment destination.

Foreign investment in Mexico has largely been concentrated in the northern states close to the U.S. border where most maquiladoras are located, and in the Federal District of Mexico City. The Yucatan peninsula, historically an area for tourism investment, has seen industry in other sectors grow due in part to the ability to quickly send goods from its ports to the United States. Financial services, automotive and electronic sectors have received the largest amounts of FDI. Historically, the United States has been the largest source of FDI in Mexico. As of September, U.S. investors had provided 61.5 percent of 2006 FDI.

The Government of Mexico has had some success in simplifying the process of investing in Mexico. The Secretariat of Economy (SECON) maintains a Spanish-language website (www.economia.gob.mx) offering an array of information, forms, links and transactions. Among other options, interested parties can download import/export permit applications, make on-line tax payments, and chat with on-line advisors who can answer specific investment and trade related questions.

The SECON website also contains a link to the Rapid Business Start-Up System (SARE), set up through an executive decree by President Fox in January 2002. SARE reduces the time and number of government formalities required to open a low-risk business. State governments, notably Nuevo Leon, have also passed small business facilitation measures to make it easier to open businesses. Despite progress however, according to a World Bank study it takes on average 27 days to complete all paperwork required to start a business in Mexico; compared to an average OECD figure of 17 days. The Embassy advises potential investors to contact SECON for detailed information on investing in Mexico. The address and telephone number for SECON is:

Secretaria de Economia, Alfonso Reyes No. 30, Col. Hipodromo Condesa C.P. 06179, Mexico, D.F.
Tel: 52-55-5729-9100

The 1993 Foreign Investment Law is the basic statute governing foreign investment in Mexico. The law is consistent with the foreign investment chapter of NAFTA (the North American Free Trade Agreement). It provides national (i.e. non-discriminatory) treatment for most foreign investment, eliminates performance requirements for most foreign investment projects, and liberalizes criteria for automatic approval of foreign investment.

The Foreign Investment Law identifies 704 activities, 656 of which are open for 100 percent FDI stakes. There are 18 activities in which foreigners may only invest 49 percent; 13 of which require Foreign Investment National Commission approval for a 100 percent stake; 5 reserved for Mexican nationals; and 10 reserved for the Mexican state. Below is a summary of activities subject to investment restrictions.

TABLE I

SECTION 1: SECTORS RESERVED FOR THE STATE IN WHOLE OR IN PART :

A) Petroleum and other hydrocarbons;
B) Basic petrochemicals;
C) Telegraphic and radio telegraphic services;
D) Radioactive materials;
E) Electric power generation, transmission, and distribution;
F) Nuclear energy;
G) Coinage and printing of money;
H) Postal service;
I) Airports;
J) Control, supervision and surveillance of ports and heliports.

SECTION 2: SECTORS RESERVED FOR MEXICAN NATIONALS :

A) Retail sales of gasoline and liquid petroleum gas;
B) Non-cable radio and television services;
C) Credit Unions, Savings and Loan Institutions, and Development Banks;
D) Certain professional and technical services;
E) Domestic transportation for passengers, tourism and freight, except for messenger or package delivery services.

U.S. and Canadian investors generally receive national and most-favored-nation treatment in setting up operations or acquiring firms. Exceptions exist for investments for which the Government of Mexico recorded its intent in NAFTA to restrict certain industries to Mexican nationals. U.S. and Canadian companies have the right under NAFTA to international arbitration and the right to transfer funds without restrictions. NAFTA also eliminated some barriers to investment in Mexico, such as trade balancing and domestic content requirements. Local governments must also accord national treatment to investors from NAFTA countries. Mexico is also a party to several OECD agreements covering foreign investment, notably the Code of Liberalization of Capital Movements and the National Treatment Instrument.

Approximately 95 percent of all foreign investment transactions do not require government approval. Foreign investments requiring applications and not exceeding USD 165 million are automatically approved, unless the proposed investment is in a sector subject to restrictions by the Mexican constitution and Foreign Investment Law that reserve certain sectors for the state and Mexican nationals (see Table 1). The National Foreign Investment Commission determines whether investments in restricted sectors may go forward and has 45 working days to make a decision. Criteria for approval include employment and training considerations, technological contributions, and contributions to productivity and competitiveness. The Commission may reject applications to acquire Mexican companies for national security reasons. The Secretariat of Foreign Relations (SRE) must issue a permit for foreigners to establish or change the nature of Mexican companies.

**Energy**
The Mexican constitution reserves ownership of the petroleum and other hydrocarbon reserves located within Mexico. Oil and gas exploration and production efforts are under the sole purview of Pemex, Mexico's petroleum parastatal. The constitution also provides that most electricity service may only be supplied by two state-owned companies, the Federal Electricity Commission (CFE) and Central Power and Light (LYFC). There has been some opening to private capital. Private electric co-generation and self-supply are now allowed. Private investors may build independent power projects but all of their output must be sold to the Federal Electricity Commission in wholesale transactions. Private construction of generation for export is permitted. In 1995, amendments to the Petroleum Law opened transportation, storage, marketing and distribution of natural gas imports and issued open access regulations for Pemex's natural gas transportation network. Retail distribution of Mexico's natural gas is open to private investment, as is the secondary petrochemical industry. Since the government's announcement in August 2001 that national and foreign private firms will be able to import liquefied petroleum gas duty-free, one LNG terminal has begun operation in

Tamaulipas state, a second is under construction in Baja California, and CFE is bidding a third on Mexico's Pacific Coast.

Multiple Service Contracts (MSCs), designed to comply with the country's constitution, mark Mexico's most ambitious effort to attract private companies to stimulate natural gas production by developing non-associated natural gas fields. Under an MSC contract, private companies will be responsible for 100 percent of the financing of a contract and will be paid for the work performed and services rendered. However, the natural gas produced in a specific field remains the property of Pemex. Examples of work that contractors can perform include seismic processing and interpretation, geological modeling, fields engineering, production engineering, drilling, facility design and construction, facility and well maintenance, and natural gas transportation services. Some Mexican politicians still oppose MSCs as a violation of the Mexican constitution's ban on concessions. Some contracts have failed to attract any bids, demonstrating the limited success of MSCs.
Minor changes to the regime through which Pemex remits funds to the Federal Government passed in November 2005 and further limited changes are contemplated in the current legislative session to reform specific aspects of Pemex's commercial operations.

**Telecommunications**
Mexico allows up to 49 percent FDI in companies that provide telecommunications networks and services. This includes the Cable TV (CATV) industry, with one exception: companies can issue Neutral or "N" stocks up to 99 percent, which can be owned by a foreign company. In fact, one CATV company operates under this ownership scheme. There is no limit on FDI in companies providing cellular services. However, Telmex continues to reign as the dominant telecom power and wields significant influence over key regulatory and government decision makers. Mexico's dominant landline and wireless carriers are traded on the New York Stock Exchange.

Several large U.S. and international telecom companies are active in Mexico, partnering with Mexican companies or holding minority shares. Following a 2004 WTO ruling, international resellers are authorized to operate in Mexico and so some companies are also looking to sell wholesale minutes to resellers. Telcel (technically independent, but majority owned by Telmex owner's Grupo Carso) still retains a majority share (about 70 percent) of the cellular market. However, Spain's Telefonica Movistar, among others, continues to grow and challenge the status quo. They have deployed extensive mobile infrastructure to increase coverage around the country.

Telmex continues and will continue to dominate the market in Long Distance (local and international), Internet access through DSL, and bundle services. A new Convergence Accord, published in October, allows Telmex to offer broadcasting or TV services. The Federal Telecommunications Commission has not found any legal reason that Telmex would be required to pay a fee to the government for the privilege, but the Secretariat of Economy is reviewing the issue. The accord has elicited strong concerns from the CATV industry, which fears that it will push CATV operators to consolidate. However, under the accord, CATV operators (including TV duopolist Televisa's Cablevision) will also be allowed to begin providing telephone services, which might increase competition in the telephony market.

As in telecommunications, there are concerns that the two dominant television companies – Televisa and TV Azteca, who share duopoly status in the sector – continue to exercise influence over Mexican judicial, legislative, policy, and regulatory bodies to prevent competition. The Radio and Television Law passed in March 2006 has been criticized as catering to the interests of dominant industry players by imposing permanent disadvantages on new entrants as compared to the current dominant duopoly.

U.S. firms remain unable to penetrate the Mexican television broadcast market, despite the fact that both Televisa and TV Azteca benefit from access to the U.S. market. TV Azteca has used the Mexican legal system to harass a U.S. firm trying to enter this sector. This harassment included TV Azteca personnel directing a raid, with the support of Mexico City auxiliary police, on production facilities for the purpose of stopping production of a show in Mexico for U.S. Spanish-speaking audiences and thereby obtaining relief that Azteca could not legitimately obtain in the United States. Mexico's television ad market is estimated to be worth in excess of 2.5 USD billion annually.

**Real Estate**
Investment restrictions still prohibit foreigners from acquiring title to residential real estate in so-called "restricted zones" within 50 kilometers (approximately 30 miles) of the nation's coast and 100 kilometers (approximately 60 miles) of the borders. In all, the restricted zones total about 40 percent of Mexico's territory. Nevertheless, foreigners may acquire the effective use of residential property in the restricted zones through the establishment of a 50-year extendible trust (called a fideicomiso) arranged through a Mexican financial institution that acts as trustee.

Under a fideicomiso the foreign investor obtains all rights of use of the property, including the right to develop, sell and transfer the property. Real estate investors should, however, be careful in performing due diligence to ensure that there are no other claimants to the property being purchased. Fideicomiso arrangements have led to legal challenges in some cases. Title insurance has recently become available in Mexico and a few major U.S. title insurers have begun operations here.

**Transport**
The Mexican government allows up to 49 percent foreign ownership of 50-year concessions to operate parts of the railroad system, renewable for a second 50-year period. The Mexican Foreign Investment Commission and the Mexican Federal Competition Commission (CFC) must approve ownership above 49 percent. In a positive sign for competition, the CFC recently struck down a proposed merger between two of the three major railroad companies. The decision may still be appealed. Consistent with NAFTA, foreign investors from the U.S. and Canada are now permitted to own up to 100 percent of local trucking and bus companies, however, several companies have encountered long wait times and legal tie-ups when trying to obtain permits.

CINTRA, the government holding company for the Mexican airline groups, Mexicana and Aeromexico, sold Grupo Mexicana to Grupo Posadas in December 2005. Rumors of plans to sell Grupo Aeromexico still abound, although the timing of the proposed sale is still uncertain. These sales, coupled with the emergence of new low-cost start-ups are likely to change the dynamics of Mexican aviation in the short to medium term. Despite blossoming competition, foreign ownership of Mexican airlines is capped at 25 percent.

Foreign ownership in airports is limited to 49 percent. Express delivery service companies continue to complain that Mexican legislation unfairly favors Mexican companies by restricting the size of trucks international carriers are allowed to use.

**Conversion and Transfer Policies** Return to top

Mexico has open conversion and transfer policies as a result of its membership in NAFTA and the OECD. In general, capital and investment transactions, remittance of profits, dividends, royalties, technical service fees, and travel expenses are handled at market-determined exchange rates. Peso/dollar foreign exchange is available on same-day, 24- and 48-hour settlement bases. Most large foreign exchange transactions are settled in 48 hours. In June 2003, the U.S. Federal Reserve Bank and the Bank of Mexico announced the establishment of an automated clearinghouse for cross-border financial transactions. The International Electronic Funds Transfer System (TEFI) began operating in 2004 and commissions on transfers through the system have dropped rapidly.

**Expropriation and Compensation** Return to top

Under NAFTA, Mexico may not expropriate property, except for a public purpose and on a non-discriminatory basis. Expropriations are governed by international law, and require rapid fair market value compensation, including accrued interest. Investors have the right to international arbitration for violations of this or any other rights included in the investment chapter of NAFTA.

There have been twelve arbitration cases, six of which are still pending, filed against Mexico by U.S. and Canadian investors who allege expropriation, and other violations of Mexico's NAFTA obligations. Details of the cases can be found at the Department of State Website, Office of the Legal Advisor (www.state.gov/s/l).

**Dispute Settlement** Return to top

Chapter Eleven of NAFTA contains provisions designed to protect cross-border investors and facilitate the settlement of investment disputes. For example, each NAFTA Party must accord investors from the other NAFTA Parties national treatment and may not expropriate investments of those investors except in accordance with international law.

Chapter Eleven permits an investor of one NAFTA Party to seek money damages for measures of one of the other NAFTA Parties that allegedly violate those and other provisions of Chapter Eleven. Investors may initiate arbitration against the NAFTA Party under the Arbitration Rules of the United Nations Commission on International Trade Law ("UNCITRAL Rules") or the Arbitration (Additional Facility) Rules of the International Center for Settlement of Investment Disputes ("ICSID Additional Facility Rules"). Alternatively, a NAFTA investor may choose to use the registering country's court system.

The Mexican government and courts recognize and enforce arbitral awards. The Embassy has heard of no actions taken in the Mexican courts for an alleged Chapter 11 violation on behalf of U.S. or Canadian firms.

There have been numerous cases in which foreign investors, particularly in real estate transactions, have spent years dealing with Mexican courts trying to resolve their disputes. Often real estate disputes occur in popular tourist areas such as the Yucatan. American investors should understand that under Mexican law many commercial disputes that would be treated as civil cases in the U.S. could also be treated as criminal proceedings in Mexico. Based upon the evidence presented a judge may decide to issue arrest warrants. In such cases Mexican law also provides for a judicial official to issue an "amparo" (injunction) to shield defendants from arrest. U.S. investors involved in commercial disputes should therefore obtain competent Mexican legal counsel, and inform the U.S. Embassy if arrest warrants are issued.

## Performance Requirements and Incentives

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The 1993 Foreign Investment Law eliminated export requirements (except for maquiladora industries), capital controls, and domestic content percentages, which are prohibited under NAFTA. Foreign investors already in Mexico at the time the law became effective could apply for cancellation of prior commitments. Foreign investors who failed to apply for the revocation of existing performance requirements remained subject to them.

The Mexican federal government has eliminated direct tax incentives, with the exception of accelerated depreciation. A comprehensive fiscal reform package including changes to corporate, individual, and other taxes has been proposed. Some changes to tax law under this framework were approved with the 2005 Revenue Bill, reducing income tax rates on a gradual basis. Needed comprehensive fiscal reform has stalled although the current administration has indicated it will pursue the matter in the coming years. Investors should follow this development closely as whatever reforms that ultimately emerge could have implications for investors.

Most taxes in Mexico are federal; therefore, states have limited opportunity to offer tax incentives. However, Mexican states have begun competing aggressively with each other for investments, and most have development programs for attracting industry. These include reduced price (or even free) real estate, employee training programs, and reductions of the 2 percent state payroll tax, as well as real estate, land transfer, and deed registration taxes. Four northern states – Nuevo Leon, Coahuila, Chihuahua and Tamaulipas – have signed an agreement with the state of Texas to facilitate regional economic development and integration. Investors should consult the Finance, Economy, and Environment Secretariats, as well as state development agencies, for more information on fiscal incentives. Tax attorneys and industrial real estate firms can also be good sources of information.

U.S. Consulates have reported that the states in their consular districts have had to modify their incentive packages due to government decentralization. Many states have also developed unique industrial development policies. Sonora, for example, is working to expand the free entry area for tourists (south from the border to the port of Guaymas.) Sonora is one state that has implemented long-term agriculture and infrastructure development plans. The government of Yucatan provides information and support to potential investors and business entrepreneurs through several programs that target different industries such as technology, agroindustry and energy exploration.

There is a government-owned development bank, Nacional Financiera, S.A. (www.nafin.com), which provides loans to companies in priority development areas and industries. It is active in promoting joint Mexican-foreign ventures for the production of capital goods. Nacional Financiera offers preferential, fixed-rated financing for the following types of activities: small and medium businesses; environmental improvements; studies and consulting assistance; technological development; infrastructure; modernization; and capital contribution. The Mexican Bank for Foreign Trade, Bancomext, offers a variety of export financing and promotion programs (www.bancomext.com).

Mexico has two programs to stimulate manufactured exports - maquiladora and PITEX (Program for Temporary Imports to produce Exports) – that largely operate in the same manner. The first is focused on companies that specialize in in-bond manufacturing and export, while the second is for companies that may have significant domestic sales. In November 2006, the maquiladora and PITEX programs were combined into the renamed IMMEX (Industria Manufacturera, Maquiladora y Servicios de Exportacion) program. The IMMEX program adds services, such as business process outsourcing, to the maquila scheme and also simplifies and streamlines the processes under the two previous schemes. The new program will continue to exempt companies from import duties and applicable taxes (e.g. VAT) on inputs and components incorporated into exported manufactured goods. In addition, capital goods and the machinery used in the production process are tax exempt, but are currently subject to import duties. Companies interested in investing in industrial activity in Mexico need to follow the new IMMEX guidelines closely, preferably in close consultation with locally based legal advisors. Please refer to the Secretariat of Economy's IMMEX program website at: http://www.economia.gob.mx/?P=2297.

In order to maintain competitiveness of maquiladora and PITEX companies and comply with NAFTA provisions, since 2001 Mexico has applied "Sectoral Promotion Programs" (PROSEC). Under these programs, most favored nation import duties on listed inputs and components used to produce specific products are eliminated, or reduced to a competitive level. These programs comply with NAFTA provisions because import duty reduction is available to all producers, whether the final product is sold domestically or is exported to a NAFTA country. Currently there are 22 PROSECs, including electronics and home appliances, automotive and auto-parts, textile and apparel, footwear, and others. The lists of inputs and components incorporated under each PROSEC are not exhaustive, and the Mexican government regularly consults with industries to include more goods.

In the last three years the Secretariat of Economy conducted, in partnership with the private sector, 12 studies, called "Programs for Sectoral Competitiveness", of the country's most important sectors according to their levels of exports, employment and FDI. Studies covering the electronics, automotive, textile, maquiladora, leather and footwear, and software sectors are currently available at the website of the Secretary of Economy (http://www.economia.gob.mx/index.jsp?P=944).

## Right to Private Ownership and Establishment

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Foreign and domestic private entities are permitted to establish and own business enterprises and engage in all forms of remunerative activity in Mexico, except those enumerated in Section 1 Table 1. Private enterprises are able to freely establish, acquire and dispose of interests in business enterprises. The two most common types of business entities are corporations (Sociedad Anonima) and limited partnerships (Sociedad de Responsibilidad Limitada). Under these legal entities a foreign company may operate an independent company, a branch, affiliate, or subsidiary company in Mexico. The rules and regulations for starting an enterprise differ for each structure.

| **Corporation (Sociedad Anonima)** | **Limited Liability Company (Sociedad de Responsibilidad Limitada)** |
|---|---|
| Can be up to 100 percent foreign-owned. | Can be up to 100 percent foreign-owned. |
| Must have a minimum of 50,000 Mexican pesos in capital stock to start. | Must have a minimum of 3,000 Mexican pesos in capital stock to start. |
| Must have minimum of 2 shareholders, with no maximum. Board of Directors can run the administration of the company. | Must have a minimum of 2 partners to incorporate a corporation with limited liability. The partners must manage the company. |
| The enterprise has an indefinite life span. | Exists only while there is a business purpose and partners remain the same. |
| Free transferability of stock ownership is permitted. | Restricted transferability of partnership shares. Any changes in the partnership composition may cause the partnership to be liquidated. |
| Operational losses incurred by the Mexican entity on subsidiary may not be used by the U.S. parent company. | If structured properly, it may offer tax advantages by allowing operational losses incurred by the Mexican entity to be used by the U.S. parent company. |
| Limited liability to shareholders. | Limited liability is afforded the partners. |

## Protection of Property Rights

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Two different laws provide the core legal basis for protection of intellectual property rights (IPR) in Mexico -- the Industrial Property Law (Ley de Propiedad Industrial) and the Federal Copyright Law (Ley Federal del Derecho de Autor). Multiple federal agencies are responsible for various aspects of IPR protection in Mexico. The Office of the Attorney General (Procuraduría General de la Republica, or PGR) has a specialized unit that pursues criminal IPR investigations. The Mexican Institute of Industrial Property (Instituto Mexicano de la Propiedad Industrial, or IMPI) administers Mexico's trademark and patent registries and is responsible for handling administrative cases of IPR infringement. The National Institute of Author Rights (Instituto Nacional del Derecho de Autor) administers Mexico's copyright register and also provides legal advice and mediation services to copyright owners who believe their rights have been infringed. The Mexican Customs Service (Aduana México) plays a key role in ensuring that illegal goods do not cross Mexico's borders.

Despite strengthened enforcement efforts by Mexico's federal authorities over the past several years, weak penalties and other obstacles to effective IPR protection have failed to deter the rampant piracy and counterfeiting found throughout the country. The U.S. Government continues to work with its Mexican counterparts to improve the business climate for owners of intellectual property. Please refer to the Embassy's IPR Toolkit for more information: http://mexico.usembassy.gov/mexico/IPR.html.

Mexico is a signatory of at least fifteen international treaties, including the Paris Convention for the Protection of Industrial Property, the NAFTA, and the WTO Agreement on Trade-related Aspects of Intellectual Property Rights. Though Mexico signed the Patent Cooperation Treaty in Geneva, Switzerland in 1994, which allows for simplified patent registration procedure when applying for patents in more than one country at the same time, it is necessary to register any patent or trademark in Mexico in order to claim an exclusive right to any given product. A prior registration in the United States does not guarantee its exclusivity and proper use in Mexico, but serves merely as support for the authenticity of any claim you might make, should you take legal action in Mexico.

An English-language overview of Mexico's IPR regime can be found on the WIPO website at: http://www.wipo.int/about-ip/en/ipworldwide/pdf/mx.pdf.

Although a firm or individual may apply directly, most foreign firms hire local law firms specializing in intellectual property. The U.S. Embassy's Commercial Section maintains a list of such law firms in Mexico at:
http://www.buyusa.gov/mexico/en/business_service_providers.html.

## Transparency of Regulatory System Return to top

The Federal Commission on Regulatory Improvement (COFEMER) under the management of the Secretariat of Economy is the agency responsible for reducing the regulatory burden on business. The Mexican government has made progress in the last few years. On a quarterly basis, these agencies must report to the Presidency on progress achieved toward Presidential goals for reducing the regulatory burden. In December 2006, President Calderon replaced the Regulatory Moratorium Agreement, issued by the previous administration to ensure agencies streamline their regulatory promulgation processes, with the Quality Regulatory Agreement. The new agreement intends to allow the creation of new regulations only when agencies prove that they are needed because of an emergency, because of the need to comply with international commitments, or because of obligations established by law.

The federal law on administrative procedures has been a significant investment policy accomplishment. The law requires all regulatory agencies to prepare an impact statement for new regulations, which must include detailed information on the problem being addressed, the proposed solutions, the alternatives considered, and the quantitative and qualitative costs and benefits and any changes in the amount of paperwork businesses would face if a proposed regulation is to be implemented. Despite these measures, many difficulties remain. Foreign firms continue to list bureaucracy, slow government decision-making, lack of transparency, a heavy tax burden, and a rigid labor code among the principal negative factors inhibiting investment in Mexico.

The Secretariat of Public Administration has made considerable strides in improving transparency in government, including government contracting and involvement of the private sector in enhancing transparency and fighting corruption. The Mexican government has established several Internet sites to increase transparency of government processes and establish guidelines for the conduct of government officials.

"Normateca" provides information on government regulations; "Compranet" allows for on-line federal government procurement; "Tramitanet" permits electronic processing of transactions within the bureaucracy thereby reducing the chances for bribes; and "Declaranet" allows for on-line filing of income taxes for federal employees.

## Efficient Capital Markets and Portfolio Investment Return to top

The Mexican banking sector has strengthened considerably since the 1994 peso crisis left it virtually insolvent. Since the crisis, Mexico has introduced reforms to buttress the banking system and to consolidate financial stability. These reforms include creating a more favorable economic and regulatory environment to foster banking sector growth by reforming bankruptcy and lending laws, moving pension fund administration to the private sector, and raising the maximum foreign bank participation allowance. The bankruptcy and lending reforms passed by Congress in 2000 and 2003 effectively made it easier for creditors to collect debts in cases of insolvency by creating Mexico's first effective legal framework for the granting of collateral. Pension reform allows employees to choose their own pension plan. Allowing banks or their holding companies to manage these funds provides additional capital to the banking sector, while the increased competition focuses fund managers on investment returns.

The financial profile of the banking sector has improved due to the reduction in the problem assets brought about by write-offs, problem loan sales, and the conclusion of most debt-relief programs. These developments, combined with more stringent capital requirements, have contributed to an improvement in the level and composition of capital across the banking system, particularly among the larger institutions.

Foreign bank participation, at over 80 percent of the banking system, is having a positive effect on Mexico's banking sector. The most apparent impact is the large size of equity investments, which have been used to clean the acquired institutions' balance sheets. Additionally, higher foreign participation should improve the technology and risk management techniques (i.e. standards in auditing, accounting and disclosure) of the banking system. Examples of changes implemented by foreign bank owners include improvements in credit approval processes, loan documentation, and credit-related management information systems. With the support of strong international shareholders, these banks should also benefit from greater access to funding.

Bank lending, especially consumer lending and mortgages, grew rapidly in 2005 and 2006, fueled by lower interest rates and historically low inflation. Small and medium-sized businesses still complain of a lack of access to credit, but government-owned development banks have expanded their lending to this sector. Despite the expansion, such lending remains low as a percentage of GDP. Private banks argue that due diligence in lending to such business is difficult given the large amount of revenue kept off the books to avoid increased tax liability.

Commercial loans to established companies with well-documented accounts are available in Mexico, but many large companies have resorted to utilizing retained earnings to fund growth. Supplier credit is the main source of financing for many businesses. The largest companies are able to issue debt for their financing needs, tapping into a growing pool of pension funds looking for investment options. Non-bank financing is generally available, however, only to large companies with strong credit

ratings and important commercial ties with their suppliers - i.e., companies that could easily procure bank financing.
The Secretariat of Finance and Public Credit sets regulatory policy and oversees the National Securities and Banking Commission (CNBV), which is the primary banking regulator. Mexico's central bank, the Bank of Mexico (BOM), also has a regulatory role in addition to setting monetary policy. The Institute for the Protection of Bank Savings (IPAB) handles deposit insurance and is charged with finishing the work of the former insurance and bank rescue fund, FOBAPROA, which took over large portfolios of bad loans from the 1995 banking crisis.

Recent reforms creating better regulation and supervision of financial intermediaries and fostering greater competition have helped strengthen the financial sector and capital markets. These reforms, coupled with sound macroeconomic fundamentals have created a positive environment for the financial sector and capital markets, which have responded accordingly.

The implementation of NAFTA opened the Mexican financial services market to U.S. and Canadian firms. Banking institutions from the U.S. and Canada have a strong market presence, holding approximately 40 percent of banking assets (as of June 2006). Under NAFTA's national treatment guarantee, U.S. securities firms and investment funds, acting through local subsidiaries, have the right to engage in the full range of activities permitted in Mexico.

Foreign entities may freely invest in government securities. The Foreign Investment Law establishes, as a general rule, that foreign investors may hold 100 percent of the capital stock of any Mexican corporation or partnership, except in those few areas expressly subject to limitations under that law (Table I). Regarding restricted activities, foreign investors may also purchase non-voting shares through mutual funds, trusts, offshore funds, and American Depository Receipts. They also have the right to buy directly limited or non-voting shares as well as free subscription shares, or "B" shares, which carry voting rights. Foreigners may purchase an interest in "A" shares, which are normally reserved for Mexican citizens, through a neutral fund operated by a Mexican Development Bank. Finally, state and local governments, and other entities such as water district authorities, now issue peso-denominated bonds to finance infrastructure projects. These securities are rated by international credit rating agencies. This market is growing rapidly and represents an emerging opportunity for U.S. investors.

## Political Violence Return to top

Potential investors should not find political violence a source of major concern. It generally takes the form of small localized conflicts and inter-communal disputes and has occurred mostly in limited regions of Mexico's southern states. Since the initial January 1994 uprising of the Zapatista National Liberation Army (EZLN) in the state of Chiapas, government forces and the EZLN have clashed only once, although Chiapas has also experienced unrelated local violence. The Popular Revolutionary Army (EPR) and the Revolutionary Army of the People's Insurgency (ERPI) emerged in June 1996 and June 1998, respectively. They have carried out a number of small attacks, principally confined to the state of Guerrero. On November 6, 2006, three bombs exploded in Mexico City, one of which damaged a branch of Scotia Bank. The perpetrators and the motive of the bombings are still unknown although political factors are believed to be to blame; no injuries were reported, although property damage was reported at several of the targets.

The last half of 2006 saw intense protests in the state of Oaxaca demanding, principally, the state governor's resignation. The capital city of Oaxaca was under siege by demonstrators for more than five months. Businesses – particularly those in the tourist sector -- reported millions of dollars in losses and many Western countries, including the United States, issued travel warnings advising their citizens to avoid the area. At least 11 civilian deaths, including that of an American journalist, occurred as a direct result of the violence in Oaxaca and hundreds more were injured and/or arrested. State police forces were accused of denying due process to protestors and using excessive force to break-up the demonstrations. In response to the escalating violence, President Fox, and later President Calderon, sent the Federal Preventive Police to restore order. With the presence of federal troops, the city has been fairly calm with only sporadic public marches. The situation, however, remains delicate as the main demand of the protestors, the governor's resignation, remains unfulfilled.

Narcotics trafficking-related violence is prevalent along the northern border region of Mexico and has shown signs of spreading to other areas -- including the states of Guerrero and Michoacan -- as the federal government has attempted to crack down on the trade. The Government of Mexico, reported mixed results in reducing crime in the border region as a result of its "Operation Secure Mexico" program. During the first month of his tenure, President Felipe Calderon initiated “Operation Together Michoacan” and “Operation Tijuana” sending 7,000 troops to combat drug related gangs in the Michoacan state and additional troops to Baja California. He is planning on sending troop to additional states in the future.

The consulate in Tijuana has noticed that security concerns have increasingly been an issue for companies looking to invest in the Baja peninsula. The National Chamber of Electronics in Baja California has called for a State plan addressing security issues. Peaceful mass demonstrations are common in the larger metropolitan areas such as Mexico City, Guadalajara, and Monterrey.

## Corruption Return to top

Corruption has been pervasive in almost all levels of Mexican government and society. President Calderon has stated that his government intends to continue the fight against corruption and government agencies at the federal, state and municipal levels are engaged in anti-corruption efforts. The Secretariat of Public Administration has the lead on coordinating government anti-corruption policy.

Other government entities, such as the Supreme Audit Office of the Federation (equivalent of the GAO), have been playing a role in promoting sound financial management and accountable and transparent government with limited success as most Mexican external audit institutions (mostly at the state level) lack the operational and budgetary independence to protect their actions from the political interests of the legislators they serve. Technical assistance is being provided to them by USAID to promote the use of modern auditing practices.

Mexico ratified the OECD convention on combating bribery in May 1999. The Mexican Congress passed legislation implementing the convention that same month. The legislation includes provisions making it a criminal offense to bribe foreign officials. A bribe to a foreign official cannot be deducted from Mexican taxes. Mexico is also a party to the OAS Convention against Corruption and is one of 13 countries that have signed and ratified the United Nations Convention against Corruption.

The government has enacted strict laws attacking corruption and bribery, with average penalties of five to ten years in prison. A Federal Law for Transparency and Access to Public Government Information Act, the country's first freedom of information act, went into effect in June 2003 with the aim of increasing government accountability. With USAID assistance, 20 of Mexico's 31 states have replicated federal efforts by passing similar freedom of information legislation, the vast majority of which meets international standards in this field. Three years after its passage, transparency in public administration at the federal level has noticeably improved, but access to information at the state and local level has been slow.

Mexico is ranked 70th in international NGO Transparency International's Corruption Perception Index for 2006, on par with China, India, and Brazil. Local civil society organizations focused on fighting corruption are still developing in Mexico. The USAID-funded Project Atlatl has worked to coordinate and promote anti-corruption activities with Mexican civil society (www.atlatl.com.mx) and other key players in the anticorruption arena, such as federal and state audit institutions. The Mexican branch of Transparency International also operates in Mexico. The best source of Mexican government information on anti-corruption initiatives is the Secretariat of Public Administration (www.sfp.gob.mx).

**Bilateral Investment Agreements** Return to top

NAFTA governs U.S. and Canadian investment in Mexico. In addition to NAFTA, most of Mexico's ten other free trade agreements (FTAs) cover investment protection, with a notable exception being the Mexico-European Union FTA. The network of Mexico's FTAs containing investment clauses encompasses the countries of Bolivia, Chile, Costa Rica, Colombia, El Salvador, Guatemala, Honduras, Japan, Nicaragua, and Venezuela.

Mexico has enacted formal bilateral investment protection agreements with 21 countries: 13 European Union Countries (Austria, Belgium, Luxemburg, Czech Republic, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Portugal, Spain, Sweden), as well as Australia, Argentina, Cuba, Iceland, Panama, South Korea, Switzerland, and Uruguay. Agreements with Australia, Iceland and Panama were signed in 2005, but the Senate still has to ratify them. Mexico continues to negotiate bilateral investment treaties with China and India.

The United States and Mexico have a bilateral tax treaty to avoid double taxation and prevent tax evasion. Important provisions of the treaty establish ceilings for Mexican withholding taxes on interest payments and U.S. withholding taxes on dividend payments.

Mexico and the United States also have a tax information exchange agreement to assist the two countries in enforcing their tax laws. The Financial Information Exchange Agreement (FIEA) was enacted in 1995, pursuant to the Mutual Legal Assistance Treaty. The agreements cover information that may affect the determination, assessment, and collection of taxes, and investigation and prosecution of tax crimes. The FIEA permits the exchange of information with respect to large value or suspicious currency transactions to combat illegal activities, particularly money laundering. Mexico is a member of the financial action task force (FATF) of the OECD and has made progress in strengthening its financial system through specific anti-money-laundering legislation enacted in 2000 and 2004.

## OPIC and Other Investment Insurance Programs Return to top

In June 2003, Mexico and the U.S. Overseas Private Investment Corporation (OPIC) signed an agreement that will enable OPIC to offer all its programs and services in Mexico. The Mexican Senate approved full OPIC operations in August of 2004. Since then, OPIC has aggressively pursued potential investment projects in Mexico. OPIC increased its support for U.S. investment in Mexico more than tenfold when it approved 570 million USD in financing for new projects in February of 2005.

OPIC-supported funds are among the largest providers of private equity capital to emerging markets. Since 1987, OPIC has committed (as of FY 2005) over 2.6 billion USD in funding to 32 private equity funds. The OPIC funds currently investing in Mexico include Darby-BBVA Latin America Private Equity Fund, LP with a primary focus on equity investments in media and communications, transportation, consumer goods, housing, energy, and non-bank financial services and Latin Power III, L.P. focusing on equity investments in independent power projects (“IPPs”) in Latin America and the Caribbean with a focus on renewable energy and Mexico.

Details of OPIC programs and recent investment project announcements can be found at their website: www.opic.gov.

Mexico is not a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA), and has no plans to join. According to the World Bank, the Secretariat of the Economy provides the relevant services that MIGA would offer in Mexico.

## Labor Return to top

Mexico's Federal Labor Law, enacted in 1931 and revised in 1970, is based on article 123 of the Mexican constitution. Under the law, Mexican workers enjoy the rights to associate, collectively bargain, and strike. The law sets a standard six-day workweek with one paid day off. For overtime, workers must be paid twice their normal rate and three times the hourly rate for overtime exceeding nine hours per week. Employees are entitled to most holidays, paid vacation (after one year of service), vacation bonuses, and an annual bonus equivalent to at least two weeks pay. Companies are also responsible for these additional costs. These costs usually add about 30 to 35 percent to the average employees’ salary. Employers must also contribute a tax-deductible two percent of each employee's salary into an individual retirement account. Most employers are required to distribute ten percent of their pre-tax profits for profit sharing. The recently installed Labor Secretary has named labor reform as one of the top issues he will address during the next administration.

There is a large surplus of labor in the formal economy, largely composed of low-skilled or unskilled workers. On the other hand, there is a shortage of technically skilled workers and engineers. Labor-management relations are uneven, depending upon the unions holding contracts and the industry concerned. Mexican manufacturing operations are experiencing stiff wage competition from Central America, China, India, and elsewhere in low technology work, such as textile and garment manufacture.

For the past few years, strikes have been limited and usually settled quickly. Strikes that are more difficult will usually draw government mediators to help the settlement process. Independent unions have been playing an increasingly significant role, particularly since the formation of the new Labor Federation (National Union of Workers) in November 1997. Information on unions registered with federal labor authorities is supposed to be available to the public via Internet (www.stps.gob.mx), but this database is incomplete.

## Foreign-Trade Zones/Free Ports Return to top

In addition to the IMMEX programs that operate as quasi-free trade zones, in 2002 Mexico approved the operation of more traditional free trade zones (FTZ). Unlike the previous "bonded" areas that only allowed for warehousing of product for short periods, the new FTZ regime allows for manufacturing, repair, distribution, and sale of merchandise. There is no export requirement for companies operating within the zone to avail themselves of tax benefits. Regulatory guidance for the new regime is still being amended; therefore investors should consult a tax lawyer for detailed information. Most major ports in Mexico have bonded areas ("recinto fiscalizados") or customs agents ("recintos fiscal") within them. There are currently two approved FTZ's, both operating in San Luis Potosi. The first major plant in the FTZ is currently under construction. Several states have filed to convert their bonded areas into Free Trade Zones.

## Foreign Direct Investment Statistics Return to top

Foreign Direct Investment in Mexico (USD Million)

| | 2002 | 2003 | 2004 | 2005 | 2006* |
|---|---|---|---|---|---|
| Total FDI Inflow: | 19,344 | 15,348 | 22,283 | 18,934 | 14,112 |
| -New Investments | 11,385 | 6,012 | 13,328 | 9,463 | 5,106 |
| -Earnings Reinvestment | 2,440 | 2,067 | 2,330 | 3,460 | 3,048 |
| -Inter-company Investment | 3,476 | 5,308 | 4,150 | 3,190 | 3,688 |
| -Maquiladora Investment in fixed assets | 2,044 | 1,961 | 2,475 | 2,821 | 2,274 |

Foreign Direct Investment Realized in Mexico By Industry Sector Destination (USD Million)

| | 2002 | 2003 | 2004 | 2005 | 2006* |
|---|---|---|---|---|---|
| Inflow Total | 19,344 | 15,348 | 22,283 | 18,934 | 10,864 |
| Agriculture | 93 | 11 | 16 | 3 | 2 |

| | | | | | |
|---|---|---|---|---|---|
| Extractive | 248 | 78 | 146 | 24 | 70 |
| Manufacturing | 8,647 | 6,685 | 12,694 | 11,363 | 7,092 |
| Electricity and Water | 398 | 323 | 202 | 192 | (97) |
| Construction | 348 | 83 | 385 | 277 | 125 |
| Retail | 1,778 | 1,394 | 1,183 | 2,648 | 208 |
| Transport and Communication | 832 | 1,631 | 1,254 | 1,173 | 368 |
| Financial Services | 5,765 | 3,306 | 5,489 | 944 | 956 |
| Others | 1,237 | 1,838 | 913 | 2,311 | 2,141 |

Foreign Direct Investment Inflows Realized By Country/Economy of Origin (USD Million)

| | 2002 | 2003 | 2004 | 2005 | 2006* | 5 year Totals |
|---|---|---|---|---|---|---|
| Total Inflow | 19,344 | 15,348 | 22,283 | 18,934 | 10,864 | 86,773 |
| United States | 12,970 | 9,630 | 8,188 | 9,685 | 6,683 | 47,156 |
| Spain | 735 | 1,776 | 7,418 | 1,396 | 609 | 11,934 |
| Holland | 1,475 | 553 | 3,322 | 2,213 | 973 | 8,536 |
| United Kingdom | 1,249 | 1,056 | 138 | 967 | 613 | 4,023 |
| Canada | 221 | 255 | 499 | 256 | 319 | 1,550 |
| Switzerland | 462 | 312 | 1,100 | 169 | 340 | 2,383 |
| Germany | 596 | 463 | 399 | 347 | 67 | 1,872 |
| Japan | 166 | 122 | 363 | 88 | 56 | 795 |
| Denmark | 208 | 54 | 116 | 89 | 145 | 612 |
| Singapore | 59 | (6) | 30 | 12 | 22 | 117 |
| South Korea | 32 | 37 | 35 | 49 | 20 | 173 |
| Taiwan | 17 | 10 | 8 | 7 | 9 | 51 |
| China | (2) | 26 | 12 | 5 | 3 | 44 |
| France | 350 | 530 | 145 | 403 | 157 | 1,585 |

Notes FDI Investment Charts: 1) Sources: Inflow - Secretariat of Economy, Director General of Foreign Investment 2) Period: 2006 data January through September 3) Data: Millions of U.S. Dollars (USD), unless noted. 4) The Secretariat of Economy has recalculated values for past years. All values for past years are the most up to date data provided from the Secretariat of Economy. 5) The total FDI inflow for 2006 by sector and country is less than the total FDI in Mexico because it does not include an estimate that has been reported in the total FDI.

FDI INFLOW AS PERCENT GDP

| | 2002 | 2003 | 2004 | 2005 | 2006* |
|---|---|---|---|---|---|
| GDP | 648,629 | 638,797 | 683,069 | 768,437 | 599,381 |

| | | | | | |
|---|---|---|---|---|---|
| FDI Inflow | 19,344 | 15,348 | 22,283 | 18,934 | 14,112 |
| percent GDP | 3 | 2.4 | 3.3 | 2.5 | 2.4 |

Notes on "FDI as Percent GDP" chart: 1) GDP figures are taken from United Nations website. All Mexican sources give GDP in pesos only. Figures in millions of dollars 2) 2006 GDP is 3 quarter estimate using a 4 percent growth rate.

U.S. FDI Flow and Stock in Mexico (USD Millions)

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| U.S. FDI flow in Mexico | 7,656 | 3,664 | 6,361 | 6,771 |
| U.S. FDI Stock in Mexico | 56,303 | 56,851 | 63,502 | 71,423 |

Notes U.S. FDI Flow and stock in Mexico chart: 1) Source: U.S. Department of Commerce Bureau of Economic Analysis

Mexico FDI Flow and Stock in U.S. (USD Millions)

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| Mexico FDI flow in U.S. | 2,349 | 2,173 | (363) | 349 |
| Mexico FDI Stock in U.S. | 7,829 | 9,022 | 8,167 | 8,653 |

Notes U.S. FDI Flow and stock in Mexico chart: 1) Source: U.S. Department of Commerce Bureau of Economic Analysis

In 2006 there were several large foreign investments in Mexico by U.S. and other nations' companies, including:

1) Isolux Corsan (Spanish) invested USD 355 million to construct a highway from Saltillo-Monterrey.
2) Daimler Chrysler invested 1 billion USD to modernize its plant in Toluca.
3) Ford invested 2 billion USD for equipment acquisition at its Hermosillo plant.
4) BBVA invested 110 million USD in Mexico for technological platform increases
5) Arcelor Mittal Steel invested 300 million USD in its Mexican operations.
6) Jatco (Japan) invested 200 million USD to increase production at its Aguascaliente plant
7) Mitsubishi Heavy Industries (Japan) announced a 600 million USD investment to construct an electricity generation plan in Guerrero state.

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Secretariat of the Economy: http://www.economia.gob.mx

Department of State, Office of Legal Advisor: http://www.state.gov/s/l/

Mexican Development Bank: http://www.nafin.gob.mx

Mexican Foreign Trade Bank: http://www.bancomext.gob.mx

Mexican Civil Society: http://www.atlatl.com.mx

Overseas Private Investment Corporation: http://www.opic.gov

Secretariat of Labor and Social Security: http://www.stps.gob.mx

United States Department of Commerce Bureau of Economic Analysis:
http://www.bea.doc.gov/

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# Chapter 7: Trade and Project Financing



## How Do I Get Paid (Methods of Payment) Return to top

U.S. exporters should be aware that Mexican lending rates are higher than in the U.S., and range from 9 to 14% per year (as of June 2005). U.S. exporters can lose or lessen sales to Mexican buyers by demanding payment either by Confirmed Letter of Credit or Cash In Advance. While it is prudent for U.S. exporters to insist on secure payment terms, it pays for them to consider the broad variety of payment terms available to them in order to become as competitive as possible.

The guide in the link below identifies the main financing and payment mechanisms available to support U.S. exporters selling to Mexico. It is an introduction and the reader is encouraged to use it as a starting point in order to become more familiar with the subject. In many instances, the use of expert help is recommended. To that end, the following mechanisms will be examined in this report:

- Cash In Advance;
- Confirmed Letter of Credit;
- Open Account Terms;
- Open Account Terms with Export Credit Insurance;
- Documents Against Payment (D/P) & Documents Against Acceptance (D/A);
- Export Finance by US Commercial Bank (US$ denominated);
- Import Finance by Mexican Bank (P$ denominated);
- Lines of Credit Available from Mexican Development Banks.

Please see the attached link to “Getting Paid by Your Mexican Buyer: Payment Terms and Financing Options to Maximize Sales While Protecting Against Nonpayment:” http://www.buyusainfo.net/docs/x_4118633.pdf.

## How Does the Banking System Operate Return to top

**Commercial Banks:**

Mexico's commercial banks offer a full spectrum of services within one institution. These services range from offering deposit accounts, consumer and commercial lending, corporate finance, and the operation of trusts and mutual funds, to foreign exchange and money market trading.

Mexico's commercial banking sector has been opened to foreign competition. The North American Free Trade Agreement (NAFTA) permits U.S. and Canadian banks or any other foreign bank with a subsidiary in the United States or Canada to establish wholly owned subsidiaries in Mexico.

Foreign banks are now allowed to operate in Mexico. They are allowed to undertake financial inter-mediation or to solicit customers for their parent bank. Almost all the major banks, with the exception of Banorte, are under the control of foreign banks.

Given the 1994 peso crisis and the subsequent bank bailout, banks in Mexico have since been very cautious in their lending, preferring to provide loans only to their most sound customers. However, now that the Mexican economy has shown signs of growth, the banks are beginning to implement programs for lending to a wider range of companies, although at relatively high rates. In general, small and medium enterprises (SMEs) have trouble accessing credit. The Mexican Government has enacted several incentives to encourage more lending to SMEs, and banks have followed suit with new lending policies for SMEs, but it remains to be seen whether the largest segment of the Mexican economy will be able to benefit from these policies.

The Secretariat of Finance, the National Banking and Securities Commission, and the Bank of Mexico are the principal regulators of the banking system. The Secretariat of Finance is concerned with institutional issues such as licensing and sets credit and fiscal policies. The Bank of Mexico (the Central Bank) implements these policies and also operates inter-bank check clearing and compensation systems. The Institute for the Protection of Bank Savings (IPAB, replacing the former institution FOBAPROA) acts as a deposit insurance institution. The National Banking and Securities Commission, a semi-autonomous government agency, is responsible for supervision and vigilance. The Mexican Banking Association (ABM) represents the interests of Mexico's banks.

**Development Banks:**

The mission of development banks is to fill financing shortfalls in the commercial banking sector. Mexico has eight government-owned development banks that provide services to specific areas of the economy. The dominant institutions are Nacional Financiera (Nafinsa) and the Foreign Trade Bank (Bancomext). These institutions have become primarily second-tier banks that lend through commercial banks and other financial intermediaries such as credit unions, savings and loans, and leasing and factoring companies. Nafinsa's primary program funds micro, small and medium-sized businesses. Nafinsa also undertakes strategic equity investments and contributes equity to joint ventures. Bancomext provides financing to Mexican exports and to small and medium-sized companies. It also offers working capital, project lending, and training to firms in several specific sectors that require support, such as textiles and footwear.

The other Mexican development banks are BANOBRAS (Public Works Infrastructure Bank) and FINANCIERA RURAL (Rural Agriculture Bank). The U.S. Exim Bank has a program through Nafinsa to provide small and medium size Mexican companies with financing to import U.S. manufacturing inputs.

## Foreign-Exchange Controls

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There are no controls on the transfer of dollars into and out of Mexico. This means that profits can be repatriated freely.

## U.S. Banks and Local Correspondent Banks

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There are many U.S.-based banks active in the Mexican market, particularly U.S. brokers and banks working with Exim programs. This is a representative list of the U.S. banks with an office in Mexico:

American Express Bank (México),S.A.
C.P. Manuel Armendariz
General Director
Av. Patriotismo No. 635, Piso 4
Col. Ciudad de los Deportes
03710 México, D.F.
Phone: (011-52-55) 5326-2907 / 01
Fax: (011-52-55) 5326-2908
E-mail: manuel.m.armedariz@aexp.com

Bank of America Mexico
Lic. Orlando Loera
President
Lic Herbert Perez
General Director
Av. Paseo de la Reforma 265, Piso 22
PH 1,2,3
Col. Cuauhtémoc
06550 México, D.F.
Phone (011-52-55) 5230-6300, 5230-6375
Fax:(011-52-55) 5230-6399
e-mail: orlando.loera@bankofamerica.com
http://www.bankofamerica.com

National Bank for Cooperatives (CoBank, ACB)
Mr. Francisco Zamores
Representative
Paseo de la Reforma No. 2620 Ofna 303
Col. Lomas Altas
11950 México, D.F.
Phone: (011-52-55) 2591-8445
Fax: (011-52-55) 5591-8450 ask for tone
E-mail: fzamores@cobank.com
http://www.cobank.com

JP Morgan Grupo Financiero S.A. de C.V.
Sr. Eduardo Cepeda
President
Paseo de las Palmas No. 405 – Piso 16
Col. Lomas de Chapultepec
11000 Mexico, D.F.
Phone: (011-52-55) 5540-9333

Fax: (011-52-55) 5540-9548/4440-9594
E-mail: eduardo.f.cepeda@jpmorgan.com
www.jpmorganchase.com

UPS Capital Business Credit
Ing. Jorge Navarro Moreno
Representative
World Trade Center
Montecito No. 38, Piso 30, Ofna 34
Col. Napoles
03810 Mexico D.F.
Phone: (011-52-55) 5488 2276
Fax: (011-52-55) 5488 2776
E-mail: jnavarro@upscapital.com.mx

Additionally, Citigroup has a majority share in Banamex:

Banco Nacional de México, S. A. (Banamex)
Mr. Julio A. de Quesada
Corporate Director
(Banca Corporativa y de Inversión de Banamex)
Actuario Roberto Medellin No. 800, Torre Sur, Piso 5
Col. Santa Fe
01210 Mexico D. F.
Phone: (011-52-55) 2226-7240/7109
Fax: (011-52-55) 2226 7671
E-mail: julio-q.de-quesada@banamex.com
erfuentesr@banamex.com
www.banamex.com.mx

## Project Financing Return to top

Project financing requires that the only source of collateral, investment return, and loan repayment be revenues derived from services and/or products resulting from the investment. The project must be literally self-financing, without reliance on guarantees or other undertakings from owners or third parties. Examples of this type of financing are typically seen in utility industries such as electrical power, water supplies, drainage, and certain environmental projects.

Banks, investor groups, large institutional investors such as insurance companies, public offerings of bonds, and other capital market instruments often provide financing. Such financing is in its infancy in Mexico as the Government of Mexico (GOM) has previously been the owner of these types of projects. The financing required by the GOM has been handled either through large international loan syndication direct to the federal government or its operating entities or through multilateral credits.

Mexico has entered a new era in granting concessions for seaports, airports, railroads, satellite communications, power generation plants, and natural gas distribution systems. The winning Mexican and foreign firms of these activities must arrange the pure project financing required.

**Financing for Projects:**

In general, Mexican and foreign firms that win bids and tenders need to finance major purchases of both equipment and services.

**U.S. Exim Bank:**

The Export-Import Bank of the United States (Exim Bank), an independent agency of the federal government, offers various short, medium and long-term export finance and insurance programs. Of specific interest to U.S. exporters are the guarantees for medium-term loans to purchasers of capital equipment. Most loans are actually made by American banks with Exim Bank's guarantee. Exim Bank is very active in Mexico and Mexico consistently ranks as Exim Bank's top market.

Much of Exim Bank's activity is under so-called bundling facilities. A bundling facility is a large medium-term loan made to a Mexican bank by an American bank with the guarantee of Exim Bank. The Mexican bank then makes loans for the purchase of American capital goods to Mexican companies. It undertakes the credit assessment and risk since it effectively counter guarantees the loans it makes. There also are a number of U.S.-based banks that extend Exim Bank credits in Mexico. The major Mexican commercial banks have signed agreements with Exim Bank to grant lines of credit to Mexican firms that purchase U.S.-made products. In the past year, Exim Bank has signed several Master Guarantee Agreements with major Mexican banks, such as Santander Serfin, BBVA-Bancomer, Banamex and others. Such credits generally are available only to Mexican blue chip companies and to their suppliers with firm contracts. Small and medium size Mexican firms may be able to indirectly access Exim Bank credit through the programs of the Mexican small business development bank, Nacional Financiera, or Nafinsa. In December of 2003, Exim Bank and Nafinsa signed an agreement to provide a mechanism for small and medium-sized companies for loans with a minimum of $100,000.

**Overseas Private Investment Corporation:**

The Overseas Private Investment Corporation (OPIC) was granted permission to offer its full range of programs services in Mexico by the Mexican Congress in August of 2004. Since then, OPIC has aggressively promoted its programs and services to Mexico and approved over $575 million worth of projects in 2005.

**U.S. Trade and Development Agency:**

The U.S. Trade and Development Agency (USTDA) provides funding for feasibility studies and other forms of technical assistance to help promote U.S. exports. By assisting U.S. firms to become involved in the early stages of infrastructure project development, USTDA leverages U.S. exports during the implementation stages. USTDA works closely with the various development banks, including the World Bank and the Inter-American Development Bank, to help U.S. firms take advantage of those banks' projects. Additionally, in the case of a competitive bid for a large infrastructure project, USTDA can offer a de minimus training grant, or another form of technical assistance, to help the U.S. company or consortium make their bid more attractive. USTDA has an active program in Mexico, funding projects in a wide range of sectors.

**U.S. Small Business Administration:**

The U.S. Small Business Administration (SBA) provides financial and business development assistance to encourage and help small businesses in developing export markets. The SBA assists businesses in obtaining the capital needed to explore, establish, or expand international markets. SBA's export loans are available under SBA's guaranty program. Prospective applicants should tell their lenders to seek SBA participation, if the lender is unable or unwilling to make the loan directly.

SBA also offers an Export Revolving Line of Credit (ERLC) program that is designed to help small businesses obtain short-term financing to sell their products and services abroad. The program guarantees repayment to a lender in the event an exporter defaults. By reducing a lender's risk, the ERLC provides an incentive for lenders to finance small business exporters' working capital needs. The ERLC provides only the lender from default by the exporter; it does not cover the exporter should a foreign buyer default on payment. Lenders and exporters must determine whether foreign receivables need credit risk protection.

Borrowers can use different SBA loan programs and types of loan guarantees simultaneously, as long as the total SBA-guaranteed portion does not exceed the agency's $750,000 statutory loan guaranty limit to any one borrower.

**Inter-American Development Bank:**

The Inter-American Development Bank (IDB) finances public sector projects in Mexico and the other 25 borrowing countries in Latin America and the Caribbean. U.S. companies are eligible to compete for contract awards from public sector executing agencies. The IDB has focused its lending programs on infrastructure needs in Mexico, while the World Bank has favored human resource development and structural reform initiatives.

In contrast to trade finance institutions, U.S. companies do not apply directly to the IDB to finance U.S. exports of goods and services. United States companies interested in competing for public sector projects financed by the IDB may maximize their chances of winning by contracting a local partner in Mexico. United States companies may call on various IDB resources including monthly business briefings at the Washington D.C. headquarters, subscription to the IDB project pipeline, or registration as a project consultant.

The U.S. Commercial Service maintains an office in the IDB to assist U.S. companies in taking advantage of IDB funded projects: http://www.buyusa.gov/idb/.

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Export-Import Bank of the United States: http://www.exim.gov

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: http://www.opic.gov

Trade and Development Agency: http://www.tda.gov/

SBA's Office of International Trade: http://www.sba.gov/oit/

USDA Commodity Credit Corporation: http://www.fsa.usda.gov/ccc/default.htm

U.S. Agency for International Development: http://www.usaid.gov

Inter-American Development Bank: http://www.iadb.org

Mexican Ministry of Finance: http://www.hacienda.gob.mx

Mexican Foreign Trade Bank: http://www.bancomext.com

Mexican Development Bank: http://www.nafin.gob.mx

Mexican Infrastructure Development Bank: http://www.banobras.gob.mx

Bank of Mexico: http://www.bancodemexico.gob.mx

Mexican Banking and Securities Commission: http://www.ipab.gob.mx

Mexican Banking Institute: http://www.abm.org.mx

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# Chapter 8: Business Travel



## Business Customs

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Business and social customs vary widely in Mexico. It is best to be observant and flexible, and to take cues from the Mexicans around you.

Business cards are used extensively. Come with a large supply.

Mexicans make extensive use of professional titles (doctor, profesor, licenciado, ingeniero). It is courteous to address them by their titles. Along with this formality is an emphasis on appearances -- avoid casual dress.

When meeting in a group, it is customary to shake hands with all upon arrival and departure. Special respect may be given to older members. A single air-kiss on the cheek is expected for all women present, although not necessary in the first meeting.

Participation in social activities is very important to succeed in the Mexican business world. Bear in mind that no business may be discussed until after the meal or even until the second or third meal. Mexicans are accustomed to smoke and drink freely at business meals.

Patience is key to doing business in Mexico. Business meetings in Mexico will often take longer than they would in the United States. Etiquette often includes small talk before business. Inquiries about a business counterpart's hometown, family, etc. will be well-received. Ask about your counterpart's hometown, university, personal interests including sports, and family.

Mexican social etiquette makes it difficult to say no. Therefore, yes does not always mean yes. In conversation, Mexicans emphasize tactful and indirect phrasing, and may be more effusive than Americans with praise and emotional expressions. Do not be overly aggressive while negotiating; it is considered rude.

The concept of time is flexible in Mexico. Guests to social events (except in the case of cities in the North) can arrive an hour late. However, punctuality is observed for most Government appointments.

Although the presence of businesswomen is increasing, business in Mexico remains male-oriented. However, this need not be considered an obstacle to the participation of U.S. businesswomen in Mexico.

## Travel Advisory

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For detailed information about travel advisory information from the State Department, please click on:

http://travel.state.gov/travel/cis_pa_tw/cis/cis_970.html

## Visa Requirements

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There is a single visa form for tourist and business visitors, valid for 30 days upon entry with no fee. This form is normally distributed on all arriving aircraft. Business visitors must be careful not to enter as a tourist if their reason for visiting includes any of the following activities:

- Business meetings
- Trade events
- Consulting
- Technical support
- Marketing

Contracts and other business agreements entered into while an American visitor to Mexico is traveling on tourist rather than business status are not legal. There have been rare instances of immigration authorities detaining visitors doing business while on tourist status, resulting in fines up to $2,000. Immigration officials also have the authority to bar such travelers from obtaining visas in the future.

Immigration status can be adjusted fairly easily while in country for tourists who later find they want to do business. In Mexico City, visa status can be converted at the following immigration office, located not far from several major business hotels:

Delegación Regional
Instituto Nacional de Migracion (INM)
Lic. Mario Velazquez Santiago
Avenida Ejercito Nacional No. 862
Col. Los Morales, Polanco
11570 Mexico, D.F.
Phone: 2581-0100 x 32005

If a U.S. businessperson wants to reside in Mexico and work on a more permanent basis, it is necessary to obtain an FM-3 immigration form. This form may be obtained with validity up to one year, renewable up to a total of five years. The cost is about US$165 at the current exchange rate.

To obtain the FM-3 the traveler must present any of the following documents:

- Valid passport, or
- Proof that the traveler is engaged in international business and that he will receive his income from the U.S. company (e.g. a letter from the U.S. employer). A verbal declaration may be acceptable.

Mexico has 45 consular offices in the U.S. For further information, please contact a Mexican Embassy or Consulate, or visit the Mexican Embassy web site at www.embassyofmexico.org.

The Mexican immigration authority has reinstated a visitor's fee that was dropped over 30 years ago. The Mexican Congress authorized the fee to be collected from foreign visitors with the stated goal of computerizing visitor entry and expanding tourist services. The fee is set at $195 Mexican pesos, currently about $18 U.S. dollars. Visitors are not required to pay the fee if they:

- Are Mexican citizens;
- Are aliens residing in Mexico;
- Are students with a current Mexican student ID;
- Enter by land or sea but stay less than 72 hours;
- Enter Mexico by land, stay more than 72 hours, but do not proceed beyond the 26-kilometer checkpoints; or
- Enter Mexico by land, stay more than 72 hours, and do not proceed beyond the 26-kilometer checkpoints unless to one of the "exempted" areas (see SECTUR website below for a list of exempted areas.)

Visitors ARE required to pay the fee if they:

- Arrive by air (it will be included in your airfare);
- Arrive by sea and stay in any Mexican port longer than 72 hours (with a maximum of one fee per cruise; it will be included in your cruise package); or
- Arrive by land, stay longer than 72 hours, and proceed beyond the checkpoints or the exempted areas.

IMPORTANT NOTE: All foreign visitors should keep their Visitor Card (Forma Migratoria) bearing the official "FEE PAID" stamp as it must be surrendered upon departure from the country.

For further information please contact: the Mexican Embassy, Consulate or visit the Mexican Ministry of Tourism (SECTUR) web site at: http://www.sectur.gob.mx/.

U.S. Companies that require travel of foreign businesspersons to the United States should allow sufficient time for visa issuance if required. Visa applicants should go to the following links.

State Department Visa Website: http://travel.state.gov/visa/index.html

United States Visas.gov: http://www.unitedstatesvisas.gov/

U.S. Embassy in Mexico, visa information:
http://mexico.usembassy.gov/mexico/evisas.html

U.S. Embassy in Mexico, U.S. citizens:
http://mexico.usembassy.gov/mexico/citizen_services.html

**Telecommunications** Return to top

**Telephone Services:**

Telephone service is usually reliable and most parts of Mexico have direct dialing to the United States. Telephone service is heavily taxed in Mexico, and fees are relatively high. MCI, and AT&T calling cards may be used in Mexico. Cellular telephones are available and widely used.

While traveling throughout Mexico, the two main carriers, Telcel and Telefónica Móviles have national coverage and international roaming services. Best reception is found in federal highways and the top 50 cities in the country, including beach resorts. Nevertheless, the CDMA operator Iusacell has countrywide coverage and roaming agreements in the US with Sprint and Verizon. Unefon has a more limited coverage, but are present in the main cities in the country, as well as tourist centers. If you bring your mobile phone, chances are that you will be able to use it while traveling to Mexico, regardless of the company and technology (GSM, CDMA, PTT) you use.

**Cell phone dialing procedures:**

1. When dialing to a fixed line in Mexico from the United States, please use: 011-52-city code-phone number
For example when dialing to a Mexico City fixed line: 011-52-55-1234-5678. Mexico City and Monterrey have 8 digit phone numbers.

2. When dialing to a mobile line in to Mexico from the United States, please use: 011-52-1-city code-mobile phone number.
For example when dialing to a Mexico City mobile line: 011-52-1-55-1234-5678

3. When in Mexico, to call to another city in Mexico (fix line to fix line), please dial: 01-city code-phone number

4. When in Mexico, to call a mobile line of the same city (fix line to mobile or mobile to mobile), please dial: 044-city code-phone number

5. When in Mexico, to call a mobile line of a different city (fix line to mobile or mobile to mobile), please dial: 045-city code-phone number

6. For international long distance, dial 00 + country code + city code + number (if dialing to the USA 001+area code + number)

**Cost:**

1. If you receive a call from the United States while you are in Mexico you will be charged regular airtime plus roaming charges. Please contact your services provider for exact costs.

2. If you are in Mexico and make a call to the United States, you will be charge roaming and long distance. Please contact your services provider for exact costs.

3. When calling a mobile phone from the United States, one might notice higher rates now than since November 4, 2006. This is due to the expansion of the Calling Party Pays (CPP) program, which now includes national and international calls. Before the new mandate by the regulator, when a person from a different country called a mobile phone in Mexico, the cost was shared between the person who originated the call and the one that received it. Now, the person who originates the call pays the full rate, while the receiver does not pay at all.

**Other:**

1. All Mexican wireless operators have agreements with various operators in the United States to exchange short message (SMS).

**Local Mobile Operators are:**

Telcel – GSM / TDMA: http://www.telcel.com
Telefónica MóviStar – GSM / CDMA: http://www.telefonicamovistar.com.m
Iusacell – CDMA / 3G: http://www.iusacell.com.mx
Unefon – CDMA: http://www.unefon.com.mx
Nextel – Trunking Services (including US): http://www.nextel.com.mx

Comisión Federal de Telecomunicaciones – Regulator: http://www.cofetel.gob.mx

**Internet Services:**

Most tourist and business hotels are now providing Internet services, sometimes wirelessly, in rooms, or at a minimum, in business centers. Internet hotspots are now becoming more common. There are about 400 hotspots in Mexico. Please refer to http://www.totalhotspots.com/directory/mx to find one in the city you are visiting. As expected, Mexico City has a large proportion of them scattered around in coffee houses and restaurants.

Because Internet penetration in residential areas is low, Mexico has a proliferation of cyber cafes that offer Internet access at low cost. According to a study by the Universidad Autónoma de México (UAM) there are more than 2,000 Internet Cafés in Mexico City alone and travelers should be able to find Internet access in virtually all cities and towns.

Mail service can be unreliable. Messengers and private delivery services routinely are used to deliver correspondence both intra- and inter-city. You can find UPS, FedEx, and DHL, and local names like Estafeta, Multipack and the public mail service courier, Mexpost.

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Mexico City has frequent direct and non-stop flights from major U.S. cities. American carriers to Mexico include: American, Continental, Delta, America West, US Airways, United and Northwest. Mexican carriers providing scheduled service within Mexico include Mexicana, Aeromexico and several feeder carriers.

The Mexico City Benito Juarez International Airport offers a fixed price (depending on destination) taxi service to any point in the city. Tickets are purchased at a booth just outside the baggage claim area. This taxi service is regulated and monitored by the government. For security reasons, it is recommended that travelers do not use any other private taxi services offered on-site.

## Language

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Spanish is the official language of Mexico. While many people in the large cities speak some English, it may be difficult for them to conduct detailed discussions. Non-Spanish-speaking visitors to Mexico may wish to hire an interpreter. It is considered courteous for U.S. business people to speak a few words of Spanish. Many mid and high-level government officials and business executives speak English, and many are U.S.-educated.

## Health

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A high standard of medical care is available in the principal cities from private hospitals and doctors. Many private Mexican doctors have U.S. training and speak English.

In Mexico City, U.S. Embassy staff who need urgent medical care generally visit the ABC Hospital (tel: 5230-8000; emergency ward 5230-8161-4). Other good private hospitals and clinics located around the city include the Angeles Group (various locations); Medica Sur (south Mexico City), and Clinica Londres (central).

Visitors should follow standard international dietary precautions in Mexico. It is best to drink bottled beverages without ice. Bottled water is readily available. Raw salads should not be consumed, all fruits should be peeled, only pasteurized dairy products should be consumed, and meat should be ordered well done. Hotels and business restaurants in general cater to foreign visitors and fulfill all sanitary requirements. Many American fast food chains have franchises in Mexico with similar standards as in the United States.

Air pollution in the Valley of Mexico (Mexico City and adjacent areas) is chronic. Contaminants in excess of U.S. and Mexican standards pollute the air many days during the year. Air pollution is at its peak from November to April, during the dry season, and may aggravate allergy and cardiopulmonary problems. The relatively high altitude of Mexico City, a long winter dry season, and air pollution can cause irritation of the respiratory tract, nose and eyes - the latter especially for those who use contact lens.

Visitors to Mexico City should remember the high altitude and be prepared to move slowly, getting sufficient rest, until they have adjusted. Upon arrival in Mexico City, increased respiration, rapid heart rate, and mild dizziness may occur while visitors acclimatize to the higher altitude. Insomnia, fatigue, circulatory problems, symptoms of dehydration, and nausea are common, but pass quickly. Alcoholic beverages have a stronger effect. Newcomers may find it beneficial to drink plenty of water.

## Local Time, Business Hours, and Holidays Return to top

Mexico spans several time zones, as does the United States. From the Yucatán Peninsula to Tijuana, there is a three-hour time difference. Mexico City and Central Mexico is Central Standard Time (CST).

The length of the workday varies depending on the region of the country and the type of organization. In Mexico City, companies typically open at 9:00 and work until 6:00 or 7:00 P.M., with a long lunch beginning at 2:00 P.M. or later. In the north, the workday may begin and end earlier with lunch at 1:00 P.M. Federal government offices in Mexico City traditionally have started work at about 10:00 A.M., with a break at 2:00 or 3:00 P.M. for lunch and a return at 5:00 P.M. or 6:00 P.M to work into the evening until 9:00 P.M. Beginning April 1, 1999, the federal government issued new instructions for offices to operate between the hours of 8:00 AM and 6:00 PM with flexible arrival and departure times for employees. In practice, however, many offices continue to operate according to the traditional schedule.

Listed below are Mexican holidays for 2007. On these days, banks will not open and most businesses will be closed. Be aware of the popular "puentes" or bridges. When holidays fall near the weekend, they are rapidly converted into long weekends and are not a good time to schedule business trips.

| **2007 Date** | **Day of Week** | **Holiday** |
|---|---|---|
| January 1 | Monday | New Year's Day |
| February 5 | Monday | Anniversary of the Mexican Constitution |
| March 19 | Monday | Birthday of Benito Juarez |
| April 5 | Thursday | Holy Thursday |
| April 6 | Friday | Good Friday |
| May 1 | Tuesday | Mexican Labor Day |
| May 5 | Saturday | Anniversary of the Battle of Puebla |
| September 16 | Sunday | Mexican Independence Day |
| November 2 | Friday | All Souls' Day |
| November 19 | Monday | Anniversary of the Mexican Revolution |
| December 25 | Tuesday | Christmas Day |

In addition to the official holidays, there are some unofficial holidays that are observed by most businesses in Mexico. These include Mother's Day, May 10, and Dia de la Virgen de Guadalupe, Mexico's Patron Saint, December 12. Furthermore, many business contacts may be unavailable during the Christmas holiday season, which in Mexico begins around December 16 and extends to January 6, the Day of the Epiphany (Twelfth Night, Day of the Three Kings). This holds true as well for the two weeks around Easter.

## Temporary Entry of Materials and Personal Belongings Return to top

Temporary imports for manufacturing, transformation, and repair under the Maquila and Pitex programs are subject to payment of duties taxes and compensatory fees. Other temporary imports from the United States, however, do not pay import duties, taxes or compensatory fees, but they must comply with all other obligations set forth in Article 104 of the Mexican Customs Law. Please see Chapter 5, Temporary Entry, for more details.

## Web Resources

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State Department Travel Advisory:
http://travel.state.gov/travel/cis_pa_tw/cis/cis_970.html

Mexican Embassy in the U.S.: http://www.embassyofmexico.org

Mexican Ministry of Tourism (SECTUR): http://www.sectur.gob.mx

State Department Visa Website: http://travel.state.gov/visa/index.html

United States Visas.gov: http://www.unitedstatesvisas.gov/

U.S. Embassy in Mexico, visa information:
http://mexico.usembassy.gov/mexico/evisas.html

U.S. Embassy in Mexico, U.S. citizens:
http://mexico.usembassy.gov/mexico/citizen_services.html

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# Chapter 9: Contacts, Market Research, and Trade Events



## Contacts

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Ms. Karen Zens
Minister Counselor for Commercial Affairs
United States Trade Center
Liverpool 31
Col. Juarez
06600 México, D.F.
Phone: (011-52-55) 5140-2601
Fax: (011-52-55) 5705-0065
Mail: P.O. Box 9000
Brownsville, TX 78520-0900
E-mail: Karen.zens@mail.doc.gov
www.buyusa.com
www.buyusa.gov/mexico/

Mr. Vlad Sambaiew
Minister Counselor for Economic Affairs
Embassy of the United States of America
Paseo de la Reforma 305-4
06500 México, D.F.
Phone: (011-52-55) 5080-2999
Fax: (011-52-55) 5080-2394
Mail: P.O. Box 9000
Brownsville, TX 78520-0900
Email: SambaiewVP@state.gov
www.usembassy-mexico.gov

Mrs. Suzanne Heinen
Minister Counselor for Agricultural Affairs
Embassy of the United States of America
Paseo de la Reforma 305 Floor 2
06500 México, D.F.
Phone: (011-52-55) 5080-2847
Fax: (011-52-55) 5208-2130/2776
Mail: P.O. Box 9000
Brownsville, TX 78520-9000
Email: agmexico@usda.gov
www.usembassy-mexico.gov

U.S. Agricultural Trade Office
United States Trade Center
Liverpool 31
Col. Juarez
06600 México, D.F.
Phone: (011-52-55) 5140-2675
Fax: (011-52-55) 5535-8357
Mail: P.O. Box 9000
Brownsville, TX 78520-0900
Email: atomexico@usda.gov
www.usembassy-mexico.gov

U.S. Agricultural Trade Office, Monterrey
Mr. Daniel Martinez Director
Blvd. Diaz Ordaz No. 140, 2 Tower, 7 Floor,
Col. Santa Maria
64650 Monterrey, Nuevo Leon
Phone: (011-52-81) 8333-5289
Fax: (011-52-81) 8333-1248
Mail: P.O. Box 9002
Brownsville, TX 78520-9002
E-mail: atomonterrey@usda.gov

U.S. Consulate General, Monterrey
Mr. Dan Crocker
Principal Commercial Officer
Avenida Constitución No. 411 Pte.
64000 Monterrey, NL
Phone: (011-52-81) 8343-4450/8340-0364
Fax: (011-52-81) 8342-5172
Mail: P.O. Box 9002
Brownsville, TX 78520-9002
E-mail: Daniel.crocker@mail.doc.gov
www.buyusa.com
www.buyusa.gov/mexico

U.S. Consulate General, Guadalajara
Ms. Lora Baker
Principal Commercial Officer
Lopez Cotilla No. 2032, 4th Floor
Col. Arcos Vallarta
44130 Guadalajara, Jalisco
Phone: (011-52-33) 3615-1140
Fax: (011-52-33) 3615-7665
Mail: P.O. Box 9001
Brownsville, TX 78520-0901
E-mail: lora.baker@mail.doc.gov
www.buyusa.com
www.buyusa.gov/mexico/

Secretaria de Economia

(Former SECOFI-Secretariat of Commerce and Industrial Development):
http://www.economia.gob.mx

Instituto Mexicano de la Propiedad Industrial (IMPI)
(Mexican Institute of Industrial Property and Technological Development):
http://www.impi.gob.mx

Secretaria de Educación Pública (SEP)
(Secretariat of Public Education): http://www.sep.gob.mx

Secretaria de Energía (SE)
(Secretariat of Energy): http://www.energia.gob.mx

Secretaria de Medio Ambiente, Recursos Naturales
(Secretariat of the Environment, Natural Resources): http://www.semarnat.gob.mx

Secretaria de Comunicaciones y Transportes (SCT)
(Secretariat of Communications and Transport): http://www.sct.gob.mx

American Chamber of Commerce - Mexico, A.C.: http://www.amcham.com.mx

U.S.- Mexico Chamber of Commerce: http://www.usmcoc.org

Cámara de Comercio Hispana de los Estados Unidos
United States Hispanic Chamber of Commerce: http://www.ushcc.com

Cámara Nacional de Comercio de la Ciudad de Mexico (CANACO)
(National Chamber of Commerce of Mexico City): http://www.ccmexico.com.mx

Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo
(CONCANACO- SERVYTUR)
(Confederation of National Chambers of Commerce): http://www.concanacored.com

Cámara Nacional de la Industria de la Transformación
(National Manufacturing Industry Chamber): http://www.canacintra.org.mx

Confederación de Cámaras Industriales de los Estados Unidos Mexicanos
(CONCAMIN)
(Confederation of Industrial Chambers of Mexico): http://www.concamin.org.mx

Asociación Nacional de Importadores y
Exportadores de la Republica Mexicana, A.C.
(ANIERM)
Association of Importers and Exporters of Mexico: http://www.anierm.org.mx

It should be noted that there are hundreds of specialized and regional associations and chambers in Mexico, which could not be included here.

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To view market research reports produced by the U.S. Commercial Service please go to the following website: http://www.export.gov/marketresearch.html and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

## Trade Events

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Please click on the link below for information on upcoming trade events.

http://www.export.gov/tradeevents.html

http://www.buyusa.gov/mexico/en/trade_events.html

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# Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide.  Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

http://www.buyusa.gov/mexico/en/business_opportunities_mexico.html

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